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THE SPIRIT OF EXPLORATION:
WILDCAT EXPLORING FOR EXTRAORDINARY RETURNS IN THE 21ST CENTURY

ROSETTA EXPLORATION INC.
2003 Annual Report

A Credo for a New Kind of Wildcatter

NORTH AMERICA could never have been discovered by staying within sight of land. To explore is to "travel over new territory for discovery." In today's oil and gas world, "explore" has come to mean the antithesis of "explore"; it's come to mean "stay with the masses within sight of land."



A true explorer travels where no man has gone before. True explorers of yore wore the badge of "wildcatter," someone who "drills wells in the hope of finding oil in a territory not known to contain oil." Rosetta is a true wildcatter, not the "swashbuckling," "mud on your boots" style of wildcatter, but rather the thorough, rigorously technical, portfolio managed wildcatter of the 21st century ... and we're doing it for both love and money.

Our desire and drive is to make stunning achievements and therefore we must explore. We believe that amazing things can happen when the right group of people explore with the right plan and the right tools. Exploring requires the spirit to challenge your assumptions; it requires the spirit to question the status quo in a frontier formed hundreds of millions of years ago.

Frontiers don't come with maps, so we're making our own. Is failure in exploration worth the cost? Each person must decide that for themselves. The spirit of exploration is either in your soul or not.

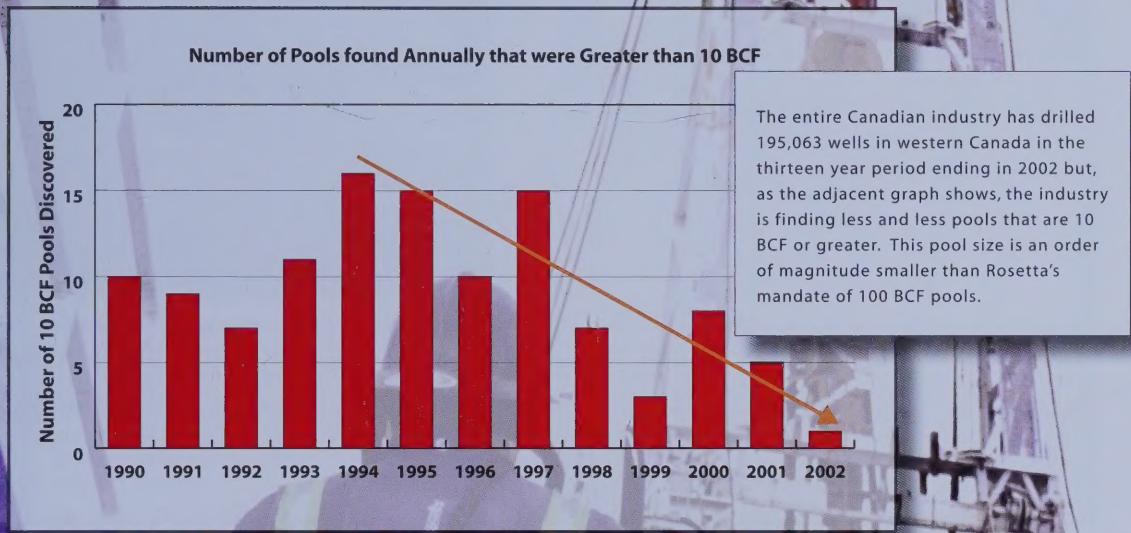
Is the amount of time required to explore worth the cost? In truth, the twists and turns of exploration set the pace, closing one door often opens another, so we don't set the timing, but we must push to achieve our mandate.

Our mandate is to pursue targets that could be worth more than \$100 million, with true potential often being an order of magnitude larger than that. On a continent where our industry is struggling to find conventional resources within sight of land, Rosetta is daring to challenge the industry's conventional wisdom that North American large land based discoveries have all been made.

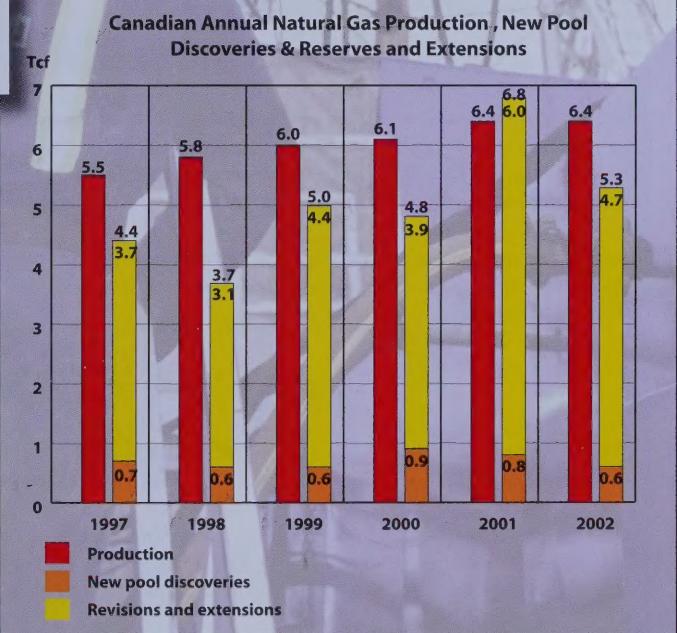
Rosetta is an amalgamating generator of proprietary ideas. For us it's about tapping the insights of all 29 men and women in the Rosetta sphere, whom, in their careers, have participated in finding 13 TCF of gas—more than \$25 billion at today's prices. This proven intellect is catalyzed with input from acknowledged world experts, channeled by a thoughtful exploration process ... driven by continuous unrelenting rigorous review.

Our intellectual capital is harnessed to process ideas for possible discoveries, and although a discovery means "to obtain sight or knowledge of for the first time," we dare to take the associated risk, believing only in success. To gain advantage, we've created a methodical approach in our quest for the "stone," the key to unlocking an understanding of the geological code ... a shared vision of our wildcat explorers ... young and old ... searching ... searching out of the sight of land ...

What are we up against in our Wildcatting Quest for Twelve 100 BCF Targets?



Canada's ability to discover new pools is diminishing.



Chairman's Letter

Rosetta was formed in 2000 in anticipation of the North American gas industry's gas supply shortage. At Rosetta we pursue 100 BCF prizes but we focus on TCF potential.



The growing supply/demand imbalance is predictably reflected in higher prices. Industry has bifurcated with two models to address the challenge.

The path most traveled by industry is to extend the existing exploitation model by moving to tighter rock, coals and shales. This is a natural extension of the Canadian industry's twenty year trend away from exploration and geological risk towards an emphasis on engineering reserves.

Rosetta, from the outset, chose the faint path of "wildcat exploration." Intrinsic to this path is acceptance of a higher degree of geological risk than the exploitation model, but success also delivers higher profit margin gas. After four years, we at Rosetta are aggressively pursuing 5.8 TCF of unrisked P10 potential in our current model portfolio. This current model portfolio has been selected by our Risk Managers from the 20 TCF of ideas included in this report. This huge inventory of potential is only possible because of our willingness to step way "outside the box."

Key is our engaging 29 knowledgeable individuals within the Rosetta Exploration Process.

Our willingness to eschew production is heretical, but it allowed us a singular dedication to focus a multidisciplinary approach on four rigorous years of regional work totaling 63,400 square miles. Our research path is illuminated by our adherence to science and experimentation with some unique remote sensing technologies. The constant challenging of convention, coupled with some new insights into reservoir rock and trapping mechanisms, has given birth to several New Play Types with multi-TGF potential.

Rosetta's strategic approach to land acquisition has successfully positioned us for this significant upside with 252,000 gross acres of land. Concurrently we've been rigorously pursuing the critical success factor of increasing our chance of success to exceed the worldwide wildcat success rate of 14%.

Rosetta has a proven core competency of licensing and drilling challenging wells, which puts us in a select group of companies.

In 2000, we began building prospects within our Deep & Steep Exploration Business Unit which encompasses our most risky projects. Today these efforts are complemented by 10 very large projects in our six Low Cost Exploration Business Units. These newer Units provide very large upside with much lower costs and, in some cases, much lower geological risk.

Of the unrisked P10 potential of 5.8 TCF in the current model portfolio, we have a summed risked P10 potential of 2.5 TCF. In 2004, subject to capital availability, our goal is to test up to six projects within our Khnum and California Exploration Business Units. These projects have a summed unrisked P10 potential of 2.2 TCF and a cumulative risked P10 potential of 1.1 TCF.

As a new kind of Wildcatter we're outside the box ... the rewards justify it ... time will verify it ... and ...

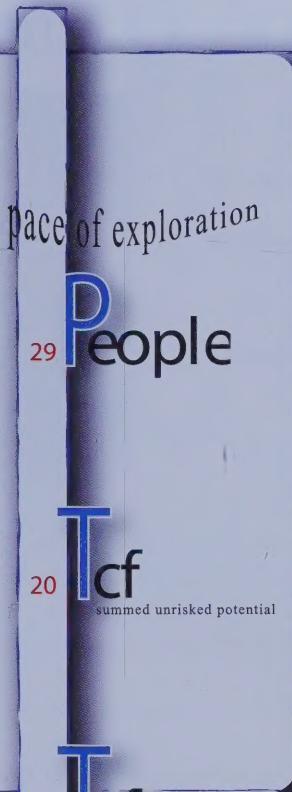
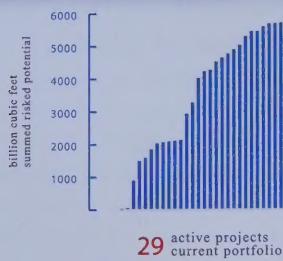


Rosetta's approach is methodical;
patience is tenable.

This year, after *four years* of prospecting
with little drilling, I welcome shareholders
to the next phase of Rosetta - a company
with a *fast forward* approach to see our
prospects drilled, faster, for less cost and
less risk.

We hope yours and Rosetta's patience is
about to be rewarded.

Jim Malcolm,
Chairman
April, 2003



EXPLORATION VISION

PEOPLE WITH A TRACK RECORD

RICH INVENTORY OF IDEAS

RIGOROUS EXPLORATION PROCESS

63,400 SQUARE MILES OF PROPRIETARY REGIONAL STUDIES

THREE NEW PLAY TYPES WITH MULTIPLE TCF POTENTIAL

REMOTE SENSING SCIENCE

252,000 ACRES OF STRATEGIC LAND

INCREASING CHANCE OF WILDCAT SUCCESS

CORE COMPETENCY IN OPERATIONS

LOW COST EXPLORATION UNITS

HIGH COST EXPLORATION UNIT

PROSPECTS TARGETED FOR 2004 DRILLING

President and COO's Letter

“*In the long run men hit only what they aim at.
Therefore, though they may fail immediately,
they had better aim at something high.* **”**

Henry David Thoreau

Dear Shareholder,



Rosetta is in the business of “exploring” to make a “discovery.” This means we’re “conducting a systematic search” to “obtain sight or knowledge of for the first time.” (Webster’s Ninth New Collegiate Dictionary)

When the explorer Champollion le Jeune found the Rosetta Stone, he didn’t know that it existed. The discovery of the Stone unlocked knowledge that was unavailable to mankind before the event. Some failure is a necessary part of true exploration. Great explorers must constantly look for “options” to overcome the inherent obstacles of exploration.

Drilling dry holes is a challenge but, we at Rosetta are excited about what our Rosetta Stone is finding. The knowledge unlocked by the Rosetta Stone embodies the very notion of “optionality” by creating choice. Every deliberate step we’re taking is discovering new knowledge and with that new knowledge we are generating significant new choices. Choices to increase our chance of significant success, choices to reduce our risk, our cost, the time to explore ...

“Exploring” and “Discovery” of the unknown is all about overcoming the unforeseen.

Since creating Rosetta four years ago, our team has reviewed one hundred exploration opportunities and concepts. We have rejected the lion’s share after intensive review and, currently have 29 projects in our current portfolio which we are actively pursuing. Each of the 29 projects operates within one of our seven “Exploration Business Units.” Each Unit constitutes a compelling, high potential stand-alone exploration business. Each unit has the potential to build a large company.

In addition to drilling our Crossfield/Cleopatra project within our Deep & Steep Exploration Business Unit, 2003 was the year we greatly increased our optionality by significantly advancing six “Low Cost” Exploration Business Units towards viability and exploration drilling activity.

Our Deep & Steep Exploration Business Unit

Our Deep & Steep Exploration Business Unit is the one that most shareholders are familiar with. This Exploration Unit is charged with finding 100 BCF prizes in the Foothills, Swan Hills and Leduc using well established geological models. These wells are all technically challenging, are drilled to depths greater than 12,000 feet, tend to be sour and, range in cost from \$5 million to \$12 million. There's a limited number of these wells drilled by the Canadian industry annually, particularly near populated areas.

In 2002, our Deep & Steep Exploration Business Unit drilled the 5-17 Swan Hills test well at Strachan seeking a "Rosevear like" re-entrant on what we believed to be the Swan Hills bank edge. We did hit the porous margin as we predicted but the margin was "wet." This was a technical success because although seismic can't determine fluid type, we did correctly hit the margin and porosity where we predicted it.

In 2003 our Deep & Steep Exploration Business Unit drilled the 9-22 Swan Hills test well at Crossfield looking for a Caroline analogue. Caroline is a 2.3 TCF gas pool discovered a full 26 years after the original large Swan Hills discovery at Kaybob. There have only been 18 discoveries in the Swan Hills in the past fifty years and if our Cleopatra prospect had been successful at its estimated P10 of 800 BCF, we and our joint venturer Petro-Canada would have made the 3rd largest Swan Hills discovery of all time. We are maintaining our initiative in the area because of the knowledge that we've gained.

You, like us, are certainly unhappy the well was basinal but, it does make a statement that Rosetta is continuing to fulfill the mandate we set when we all came together, which is the drilling of high risk and high reward projects. If successful, this project could have been worth more than \$1 billion, so it certainly meets the plan. Our team's technical work was led by Rod Morris and was sound enough to satisfy the rigor of numerous major oil companies who wished to participate.

It was a pleasure for Rosetta to work closely with the Crossfield community. The drilling of Crossfield 9-22 was led by Greg Kondro, who stood by his and Rosetta's word in meeting and exceeding all promises made in undertaking to drill our deep-sour well safely. Rosetta, having drilled two deep-sour tests in as many years, is further proof that a conscientious oil industry can drill deep wells in harmony with the community and nature.

The Deep & Steep Exploration Business Unit has seven more prospects approaching drill ready status; however, with one of our joint venturers, Murphy Oil, electing to divest most of their Canadian assets and, with the complexities of drilling deep sour wells, it'll take a while to get the next deep well drilled. It can take 15-24 months to license these wells.

Increasing Our Optionality with Six Low Cost Exploration Business Units

What our shareholders have heard less about, is that an early objective was to create lower cost exploration targets. This initiative has now yielded many very significant opportunities. These new opportunities for discovery have now emerged to create six Low Cost Shallower Exploration Business Units. These Shallower Units change our risk profile while keeping the very large upside.

Realizing that drilling deep-sour wells is a difficult task, we at Rosetta have been working diligently for three of the last four years to work up large projects at shallower depths. As most of the industry is drilling shallow projects, and, with the average successful well coming on production having less than 4/10ths of a BCF in reserves, finding shallower low cost projects that are greater than 100 BCF is a very challenging proposition indeed. To qualify as a Rosetta Low Cost Exploration Business Unit, the test wells must cost less than \$2 million.

As you know, we've made mention of our code named "New Play Types" of California, Squid and Orlando in past reports. These are new concepts that we've been rigorously researching for years.

In 2003, significant advances were made on two of these New Play Types: California and Squid.

We made significant land purchases this past year in Jim Rennie's California Exploration Business Unit. Jim has been working on this concept since 1998 and we've been scrutinizing a 14,400 square mile area with him since 2001. We've recently engaged and flown in leading experts from around the world to confirm and guide our thinking on this project. Jim and the Rosetta team have technically evaluated 12 possible projects, with five of these now being well advanced. All of us at Rosetta believe this is among the most exciting exploration ideas conceived, and we do have the heart to test our convictions. Two of the Prospects in this Business Unit are currently in the ready position for drilling in 2004 to test this new play idea.

Grant Pitcher's idea embodied in our Squid Exploration Business Unit has undergone significant and serious work by the Rosetta team since 2000, with 2003 culminating our investigation of an area of 8,000 square miles. In 2003 we were able to complete what we've been working on for four years. We've used seven different converging lines of evidence to substantiate the possibility that we've identified a 700 square mile area that might contain significant Leduc features. We've commenced land acquisition and hope in 2004 to advance the geology and geophysics to the point where we have prospects ready to drill in 2005.

In 2003 James Muraro conducted a Mississippian study in an area contiguous to a portion of the Squid Exploration Business Unit. The study comprised over 500 square miles following up an insightful idea for a special category of Mississippian trap. This insight could be a key to unlocking some significant Mississippian potential. The first of these opportunities was drilled in January 2004 and has resulted in a discovery. We're wanting to follow up the new knowledge we've confirmed with this discovery by pursuing some "by-passed pay" wells later this year. These wells may also support the activity of our Squid Exploration Business Unit because the two concepts happen to overlap.

The Orlando Exploration Business Unit wasn't allocated much of our scarce resources in 2003, and remains in the early exploration phase. We were able to secure a large regional seismic database over the area in question and we continue to advance Oene Miedema's ideas. Early seismic review has identified 200 leads to follow up on. We don't expect drillable prospects until we can free up additional resources to dedicate to this unit.

Also in 2003, Ross Clark completed an examination of more than 7000 square miles and verified some innovative thinking of one of our Advisors who has identified an unusual trapping mechanism. The Advisor's insight and Ross' work have provided us with an exploration Competitive Advantage, which we believe will result in improved success rates for this type of play. This has led to the creation of the new Khnum Exploration Business Unit. Our goal for 2004 is to acquire land and to test with drilling three or four ideas that Ross and the Advisor have developed.

Creating Value is All About Creating Optionality

We, at Rosetta, are all dedicated to creating significant value for all of us as shareholders. We're interested in discovering the unknown to make extraordinary returns.

The long term goal of augmenting our technical strengths in deep "conventional" exploration with "optionality" in shallower potential, is beginning to come to fruition in 2004.

Ideally we hope to drill three or more "lower cost" company making projects this year. As always, we must remind all shareholders that our business plan is fraught with risk, not the least of which is the adequacy of our capital resources to implement our well thought out plans. To fully implement our current 5.8 Tcf model portfolio requires \$33 million of risk capital and 57 wells. We've been well supported by the capital markets these past years, most recently with the completion of a financing of \$6.32 million in November 2003. In addition to the capital markets, we'll continue our programs of creatively generating revenues from our lands and/or asset dispositions (\$1 million in 2003). If the capital isn't forthcoming in the short term, we'll have to reduce our well commitments to just those required to meet our 2003 flow-through share commitments. Our first priority drilling is three wells in the Khnum Unit, with the next priority drilling being two to three wells in our California Unit. We're looking for an industry partner for our Deep and Steep drilling initiatives in 2004.

We're Holding Our Ground

It's difficult to explain to our fellow shareholders a share price that doesn't reflect the innovative fiber of this company, particularly given the highly confidential nature of what we do. A former Vice President of British Petroleum who operates worldwide out of Britain, and who has reviewed some of the work we're doing, remarked recently that we're one of the few companies in the world that has taken such a thorough, thoughtful and methodical approach to big exploration.

On a continent that is struggling to find enough natural gas, we have now generated and painstakingly advanced ideas with unrisked potential of 20 TCF of gas. Bear with us ... we're a new kind of wildcatter ... and we're going where no one has gone before ...



Glenn Gradeen,
President and Chief Operating Officer
April, 2003



Generation of Proprietary Ideas is our Business

The Formula for Success is Embedded in the Process

Boone Pickens told a New York audience in 2003 that, despite natural gas prices being high, the "rigs aren't going out."



Historically high gas prices resulted in high rig fleet utilization but, as Pickens said, "the rigs aren't going out because the industry doesn't have the ideas." US industry statistics support this, showing the entire US industry is now drilling only 5,000 natural gas wells on-shore annually.

A similar situation is presenting itself in Canada, as we're running out of what was once a 25 year supply of gas. This supply has fallen to less than eight years as the industry has expertly "manufactured" the shallow reserves with increasing well density. Coalbed methane is now considered a legitimate exploration target.

In an industry with fewer and fewer ideas for large targets, and even less time to look for them, Rosetta is progressing with a rich portfolio of 29 technically solid ideas. Ninety per cent of Rosetta's ideas have a potential prize of \$100 million, with some being an order of magnitude greater.

From the outset, Rosetta has cultivated an environment and a sphere of influence to generate a lot of large ideas, and the Team and Advisors are delivering a lot of technically sound, big ideas. Our goal is to generate a rich inventory of ideas where only the strong survive.

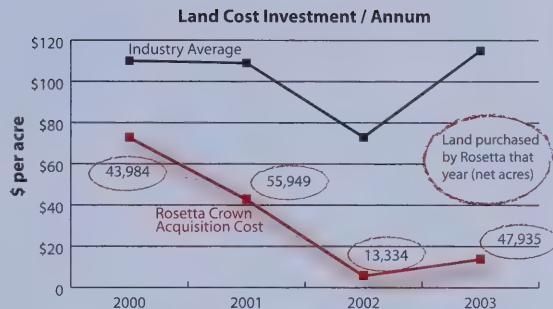
We have three Exploration Business Units that only pursue New Play Type interpretations. Each new play type has to have a minimum of 1 TCF potential to even qualify for the process.

Over our first four years, Rosetta has diligently completed 63,400 square miles of intensive and exhaustive regional studies. These studies ground all of our geoscience. All are multi-disciplinary studies which include hydrodynamics, regional geology, core and cuttings work, outcrop analysis, world analogue review, geophysics, geochemistry, remote sensing, structural analysis including gravity and magnetics, reservoir and pressure work. These studies are proprietary to us and are our "edge" – jealously guarded.

Rosetta has certain exclusive rights to some of the remote sensing tool sets we've used to reduce our regional scoping costs down from the 3D seismic metric of \$50,000 per square mile to, in some cases, a matter of dollars per square mile. It's finding costs and relentlessly driving them down ... that's what we're all about.

Our internal mantra to increase our success rate above the worldwide "wildcat" success of 14% commits us to revealing the seismic rules-of-thumb as sometimes being the infamous "emperor with no clothes." We're pushing hard to integrate four years of research and learning into the field, hopefully in 2004.

Acquiring a large amount of land on our ideas is intrinsic to our exploration focus. Robyn Lore and Brian Innes have made it their mandate to generate wealth with “win-win” relationships with industry. Companies understand a wildcatter needs a lot of dirt to make the numbers work. In 2003, Rosetta’s crown acquisition cost per net acre of land was \$17, versus the Alberta average of \$115. Strategic land holdings total 168,000 net acres.

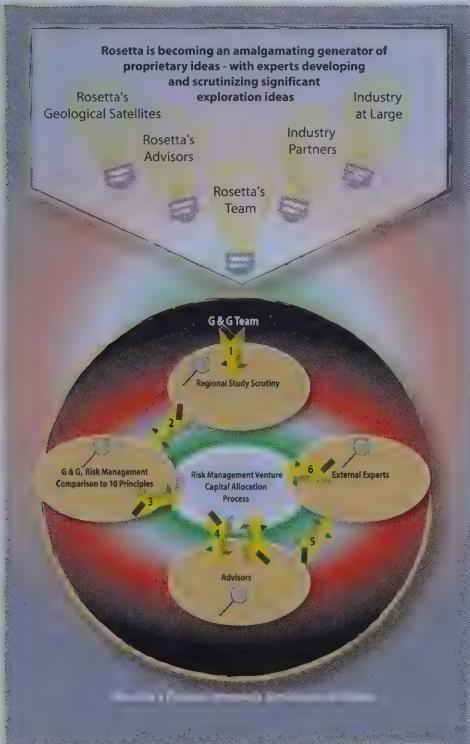


To be a success, we need to lead by example in the community in which we live. Greg Kondro's initiatives have established Rosetta as a company prepared to stand and be counted in excellence, a leader in drilling safe wells within our community ... wells and operations that respect our environment.

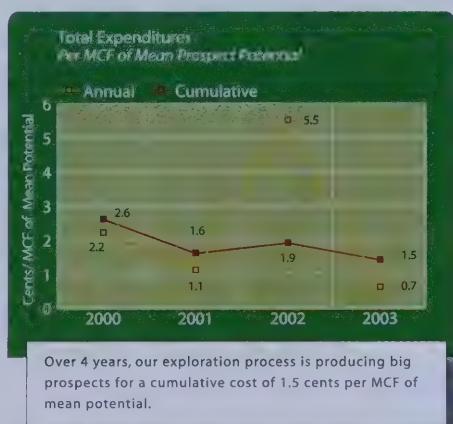
The Rosetta Exploration Process is all about marshalling 29 geoscientists and oil professionals for wealth generation. People ask how we've done. These men and women have participated in 13 TCF of discoveries in the past, this is more than \$25 billion at today's prices. Our process is dedicated to finding big numbers in our future. Exploration excellence is all about creating an environment to germinate excellent ideas and about scrutinizing them rigorously. Eliminating the chaff to preserve the wheat for the benefit of all, Rosetta and partners alike. The adjacent chart shows how an idea moves through a rigorous internal process of scrutiny; only the strongest survive.

To this point we've drilled one success and four dry holes, so some may ask if the process is working. Edison threw away 999 attempts to discover the light bulb. Worthwhile invention? We think so. Lucrative? Definitely. For the faint of heart? Definitely not. For those of us who have invested in ourselves, we see the quality of the ideas coming to the plate ...

To assure ourselves and all stakeholders that each and every one of our dollars is wisely spent, with every penny of potential wrung out of it, we track what it costs us to generate a “Prospective” MCF of mean potential (our expected case). We sum land, seismic, geology, competitive advantage and total G&A from July 1999 (inception), and divide by the gross mean



prize potential of prospects generated since inception. We have converted from a P50 size divisor in past years to a mean size divisor in keeping with our expected case. The adjacent graph indicates that Rosetta is both efficient and effective at exploration idea processing. All capital invested in the process to date has been focused upon generating a portfolio inventory of significant potential, at a mean prospecting cost which has ranged over four years from a low of 0.7 cents/MCF to a high of 5.5 cents/MCF, with a cumulative count of 1.5 cents/MCF. Our 2003 annual prospect generation cost of 0.7 cents/MCF was our lowest to date with the addition to the prospect inventory of Joshua and Monterey, two California New Play Type projects and Alexandria and Camel, two Deep and Steep projects. Despite downward revisions to the size of the Cheops and Horus prospects, Joshua's size relative to its cost dramatically improved the annual figure. As a result, Rosetta's cumulative prospect generation cost was pushed to its lowest level to date.



What Kind of Potential have We Created In Four Years?

Through December 31, 2003 Rosetta has invested approximately \$40 million and 60 man years over a four year period to develop our current cumulative P10 risked portfolio of 2.5 TCF with a mean expected case of 240 BCF.



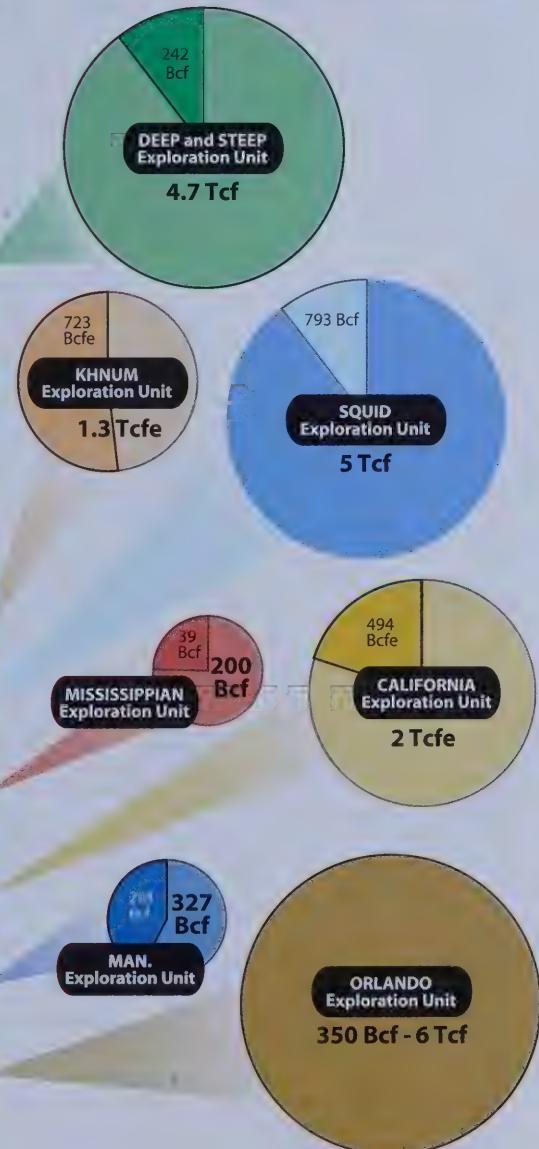
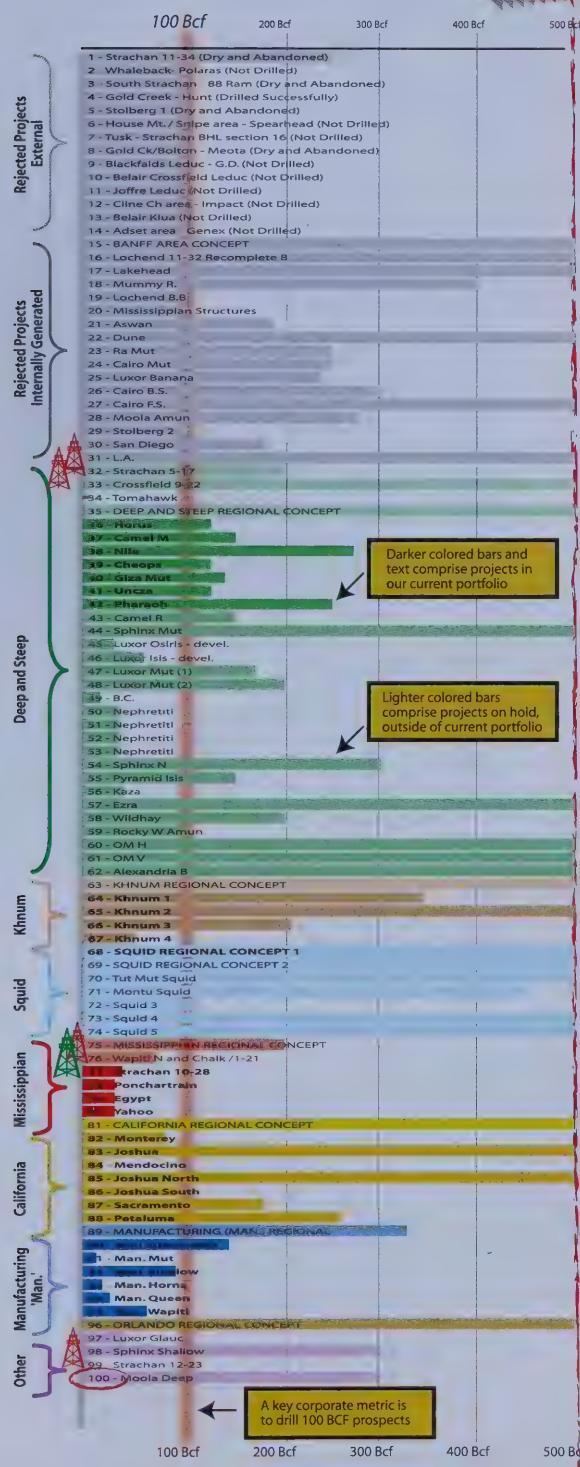
For perspective, at C\$2.00 per MCF in the ground, if successful, mean reserves of this magnitude would be worth half a billion dollars. Our current portfolio has been reduced by 1 TCF (P10) to reflect our four dry wildcats: the 9-22 Swan Hills test at Crossfield (P10 - 800 BCF), the 5-17 Swan Hills test at Strachan (P10 - 200 BCF), the 1-21 Mississippian test at Strachan and the 12-23 Viking test at Strachan. The 240 BCF mentioned above does include the potential reserves for our 10-28 Mississippian discovery at Strachan.

Approximately \$10 million of Rosetta's \$40 million has been spent drilling wells to meet flow-through share commitments, meet land expiries and seed deep drilling. Industry partners have contributed a further \$13 million to drilling our ideas and a further \$15 million to drilling their ideas on lands we control. Rosetta has invested \$30 million in land, seismic and intellectual capital to create our very rich inventory of ideas and geological projects. This means every \$1.00 invested by Rosetta into prospect generation and land has attracted \$0.93 of third party capital to this point in time.

100 ideas have been technically scrutinized by our team to generate an efficient portfolio of prospects, with each having \$100 million of potential or more. These in-depth technical and rigorous risk examinations have resulted in Rosetta forming and operating seven Exploration Business Units which today have 2.5 TCF of summed P10 risked potential. This portfolio is world-class by any measure. The next page shows all 100 ideas worked on and the potential of each of Rosetta's seven Exploration Business Units. The first 14 projects are projects that were generated by industry and offered to Rosetta for participation. We show their status as to drilled and abandoned, not drilled or successful. After review, Rosetta opted not to participate in any of these projects.

100 PROJECTS ASSESSED

POTENTIAL OF 7 EXPLORATION UNITS



We're Creating Optionality with Seven Exploration Business Units

Rosetta Relentlessly Strives to Increase the Chance of Success and Reward to Shareholders

From the beginning, Rosetta has consistently adhered to the belief that it can find big reserves. At the outset, we focused our energies on those portions of the Canadian basin that were more lightly explored.

This meant focusing on the deeper formations of Swan Hills and Leduc plus the Foothills potential. This exploration was our original foundation building block and is today contained in our "Deep & Steep" Exploration Business Unit. The unit is named this way because the opportunities are deep (greater than 12,000 feet) but have big reserves and deliverabilities when found (steep). Each test well in the Deep & Steep Exploration Business Unit costs \$5-12 million to drill. This unit carries significant upside with considerable business, licensing, drilling, operations, political and geological risks. For example, we're told that Husky's Moose Mountain discovery took seven years from inception to drilling and Shell's Caroline project is rumored to have taken longer. Today's regulatory environment would exacerbate these timelines.

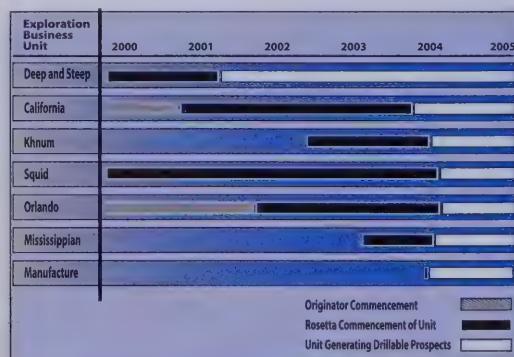
Each project within this unit meets some or all of Rosetta's Exploration Principles:

1. *Regional Knowledge Base - Conforming to Rosetta's extensive and proprietary regional work*
2. *Special Insight - Germinating from an idea unique to Rosetta*
3. *Singular Skills - Rosetta possessing certain singular skills to implement better than others*
4. *Special Technical Angle - Rosetta possessing some technological edge*
5. *Repeatability - The idea, if successful, is repeatable in multiple prospects*
6. *Strategic Land - Rosetta owns a significant land position to justify the risk*
7. *Company Maker - More than \$100 million potential means exceeding 100 BCF P10 potential*
8. *Aggressive Finding Metric - A projected finding cost of less than 25 cents/MCF*

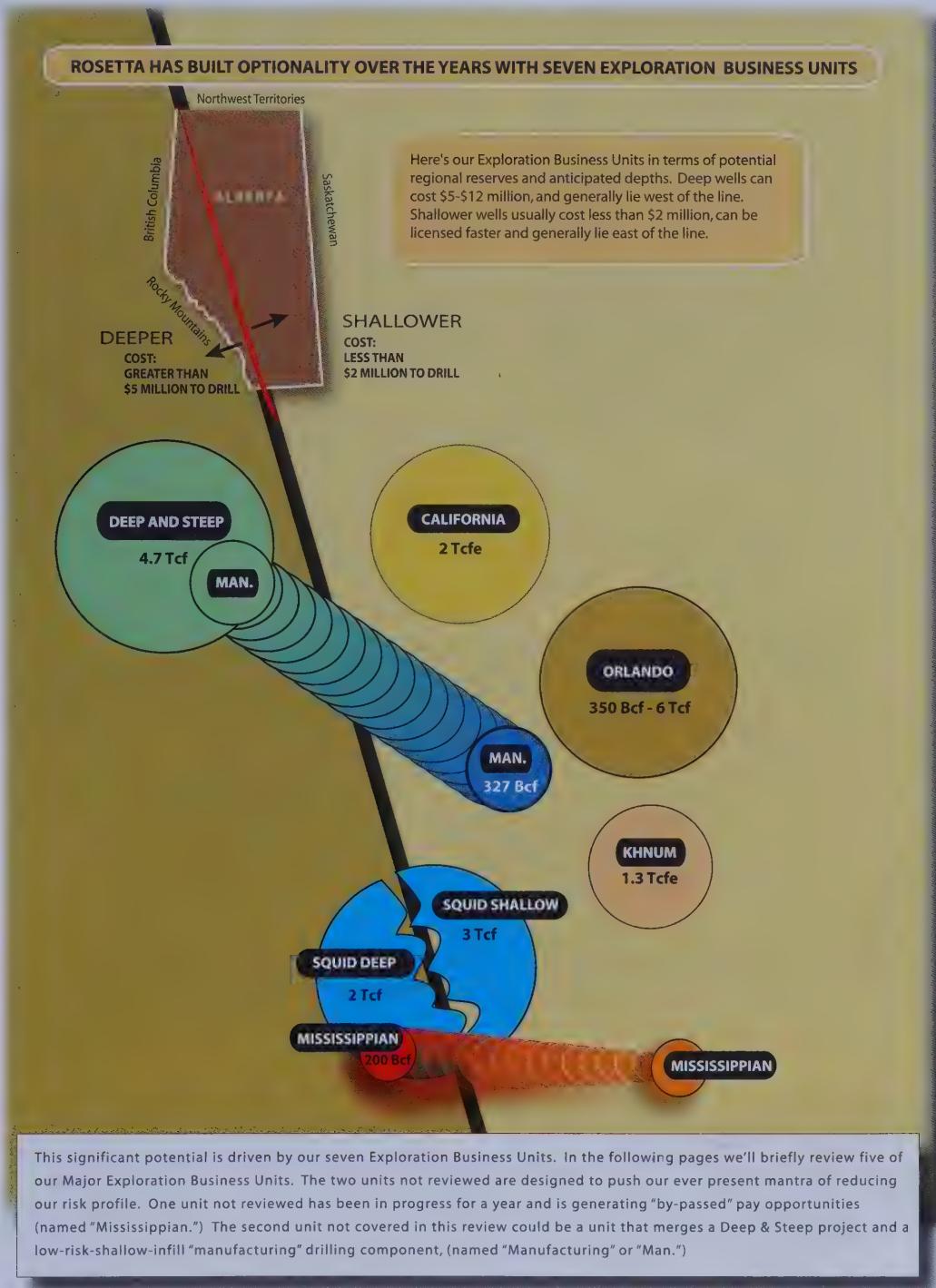
Recognizing the risks within our Deep & Steep Unit, 36 months ago Rosetta began developing six more Exploration Units to increase our "optionality" and to diversify our portfolio for success. The key to these new units was the mandate that their ideas must be ideas testable for lower costs. These units must meet the first eight Exploration Principles, plus two more:

9. *Low Drilling Cost - A drilling cost per well of less than \$2,000,000*
10. *Fast to Market - A licensing process of less than forty days*

To meet all ten principles is a tall order. These newer units operate where existing well densities can be as high as one well per square mile versus Deep & Steep well densities of one every 20 to 100 square miles. We refer to these new units as our "Low Cost Exploration Business Units." As you'd expect, it's taken considerable time and dedication to incubate such units. The time required to begin to deliver technically viable, solid projects from within these units is shown in the adjacent figure.



The following figure shows the conceptual diversity of our Exploration Business Units and why Rosetta is just now moving to the stage of being able to deliver multiple high value Company making projects into our drilling stream. As shown, our Exploration Business Units have 20 TCF of unrisked projects, from which Risk Management has selected a current portfolio with unrisked P10 potential of 5.8 TCF. This current portfolio has a summed P10 risked potential of 2.5 TCF and a mean expected case of 240 BCF.



DEEP AND STEEP

Exploration Business Unit

The Deep & Steep Exploration Business Unit was formed and funded by mid-2000 for the purposes of deep, Wildcat exploration.

Rosetta identified an Area of Interest of approximately 70,000 square miles, or roughly the size of the State of Oklahoma. This area was selected because of historical discoveries as indicated in the adjacent figure, buttressed by the fact that only 215 deep Devonian wells had been drilled in the area within the past ten years. There are numerous townships (36 square miles each) that have never had a deep well drilled within them.

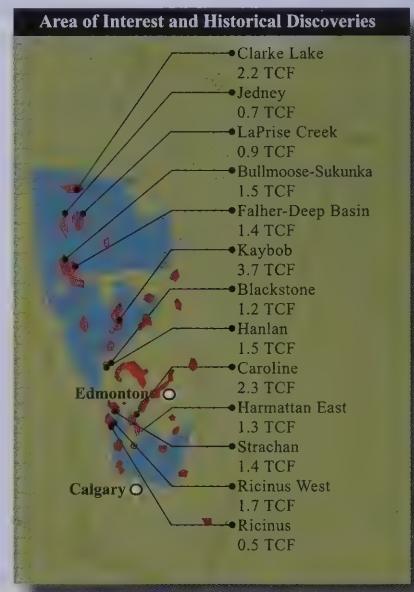
This unit is charged with exploring for deep Devonian Swan Hills and Leduc reservoirs. The unit consists of three teams, with the Swan Hills exploration led by Rod Morris, the Leduc by Grant Pitcher and the Foothills by Thomas Kubli. Keith Edwards and Caush Xhufi provide geophysical technical support to these teams, and Nor Hannon has provided the hydrodynamic insights.

To date we have nine ideas that have stood up to our very high technical standards. Two of the nine ideas are Swan Hills prospects that we've drilled recently. In 2002, in joint venture with Murphy Oil, we drilled our 5-17 Swan Hills test at Strachan with a P10 potential of 200 BCF. The well successfully found the porous margin and tested a small amount of gas, but the margin was water saturated.

In 2003, in joint venture with Petro-Canada, we drilled our 9-22 Swan Hills test at Crossfield with a P10 potential of 800 BCF of gas. The prospect was based upon subsurface geological, hydrodynamic (subsurface pressure studies), surface geochemical and geophysical evaluation. The work had defined a Swan Hills carbonate buildup that should have been an ideal trap for significant hydrocarbon accumulation. The well was drilled on strong geologic and geophysical evidence of a Swan Hills bank edge that would be trapped against basinal sediments in the up dip position. A sequence of six seismic anomalies closely coincided with the predicted location of the expected bank edge. Each individual seismic anomaly had characteristics similar to known responses to porosity at Crossfield, as well as seismic responses at the giant Caroline gas pool. The greatest risk factor on the prospect was that the geophysical anomalies were caused by either a basin sequence, or generated by interference from other geological events. In the latter case, the seismic would not match the geology at the well bore.

The well encountered basinal sediments. A synthetic seismogram was made using the 9-22 well log and this did not tie to our seismic. Our post mortem work included two vertical seismic profiles (VSP's) which verified our seismic was very close to zero phase. A man month of modeling, with Schlumberger working closely alongside, has convinced us that the Swan Hills seismic event was distorted by reverberations following a primary reflection up section, most likely caused by a glacial channel.

Historical success rates for economic discoveries in the Swan Hills are 5%, with the most recent five year period showing 14%. The size of the prizes are so large that we push on.

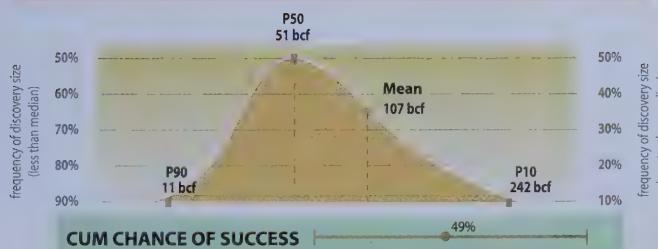


- In 2004, the Deep & Steep Unit has seven projects underway—with an objective of partnering for drilling Horus (P10 - 125 BCF Swan Hills project) and Cheops (P10 - 124 BCF Leduc project) in late 2004, although the long lead times on these projects may not see them drilled until 2005.

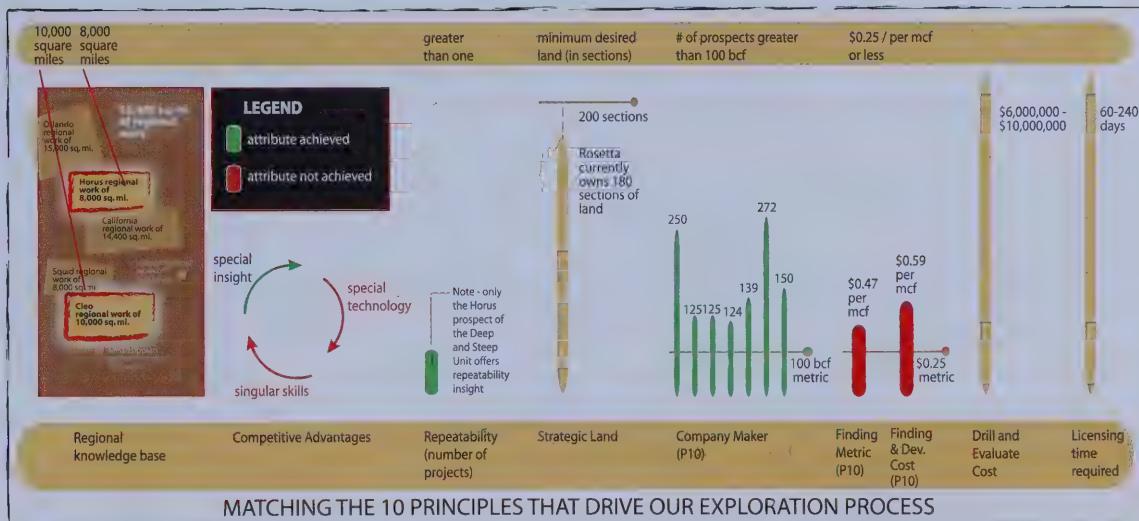
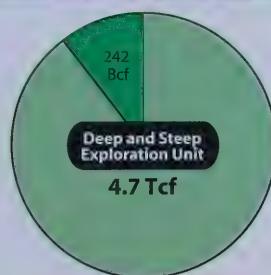
DEEP & STEEP EXPLORATION BUSINESS UNIT



RISKED PROBABILITY DISTRIBUTION: P90 / P50 / MEAN / P10 CASES



The adjacent figure shows that the Deep & Steep initiative is a High Cost Exploration Business Unit. If we're able to drill the seven projects currently active within this unit, we'll have a 49% cumulative chance of making one or more discoveries. 80% of the time, the discoveries will range between a low of 11 Bcf and a high of 242 Bcf, with a statically most likely case of 107 Bcf. The pie chart below shows these risked reserves against the backdrop of the sum of unrisked reserves of 4.7 Tcf for our projects in the unit. This larger number of 4.7 Tcf includes unrisked reserves for both the seven active projects in this unit (1.2 Tcf) and a further 20 inactive projects. The keys to our exploration process for this unit are shown in the 10 Exploration Principles set forth in the figure at the bottom of the page.





The Squid Exploration Business Unit is based upon Grant Pitcher's lifetime exploration of Leduc reefs. For forty years Grant has studied the Leduc from Edmonton to Nevada. Grant is best known for his discovery of the Strachan D3A field, which has produced 1.5 TCF of natural gas.

Grant joined Rosetta to continue his passion, surrounded by a highly technical team.

Grant and Keith Edwards initiated the Cheops Leduc prospect at Strachan, which fits the conventional framework and is part of the Deep & Steep Exploration Business Unit.

What attracted Rosetta though, was Grant's heretical belief that there are still trillions of cubic feet of potential Leduc natural gas to be found in North America. Working with some old yellowed maps Grant had, Rosetta began to methodically address numerous ideas across western Canada and the northern United States.

To bring order to the search, Rosetta engaged a highly technical group in the United States, as well as forming two internal teams. These three groups were charged with bringing three different approaches to the task at hand.

Analogs were gathered and studied from as far away as China, Australia and Europe. After four calendar years, tens of man years, hundreds of cross sections, 40,000 geochemistry tests, magnetics, proximity indicator measurements and more, the jury is in.

When the work of all three groups, working independently, was tabled, the mosaic revealed several prospective trends for possible strings of Leduc pearls. Given North America's demand for gas, a discovery of this magnitude would be timely.

As these trends were in different geographical environments, the unit has been partitioned into a lower cost exploration component and a higher cost exploration component.

Included in the four years of pioneering work is scoping seismic. The next steps include seismic analysis and early stage land acquisition. One of the trends tends towards the shallow—and land acquisition has begun with a twenty square mile block of land.

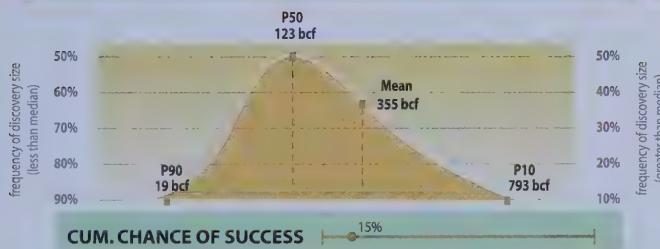
The work to date has entailed intensive regional work within several areas and basins totaling over 8000 square miles. This multi-disciplined Leduc regional work has been painstaking, time consuming, frustrating and rewarding ... the stuff discoveries are made of.

- *In 2004, Rosetta's objective is to complete a rigorous geophysical survey of the Squid trends to determine if further land acquisition is warranted. If so, the goal is to acquire more strategic land and move towards one or more prospects, with drilling as early as 2005.*

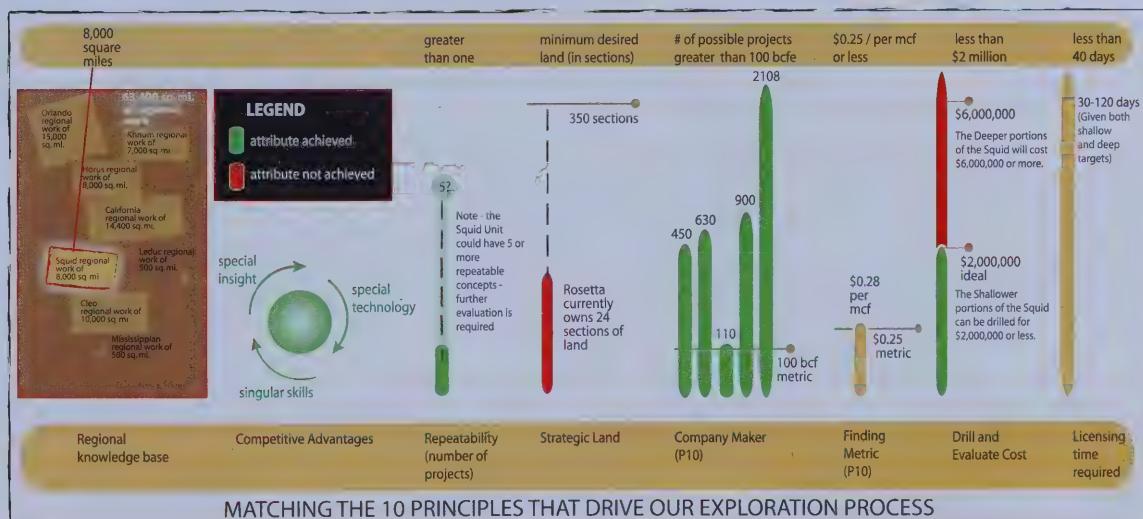
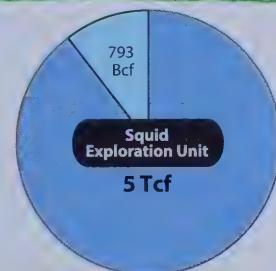
SQUID EXPLORATION BUSINESS UNIT



RISKED PROBABILITY DISTRIBUTION: P90 / P50 / MEAN / P10 CASES



The adjacent figure shows that the Squid initiative has both a Low Cost and a High Cost Exploration Business component. The probability distribution of the Squid indicates that if we controlled 100% of this new play and were able to drill 2 to 5 wells, we'd be exposed to potential reserves of 793 Bcf on a risked P10 basis, with a cumulative chance of one or more discoveries of 15%. 80% of the time the range of those discoveries will be a low of 19 Bcf to a high of 793 Bcf with a statistically most likely case of 355 Bcf. The pie chart below shows these risked reserves against the backdrop of the sum of potential unrisked reserves of 5 Tcf for the regional trends, which is that portion of the regional trends Rosetta could control, if we're able to implement our land strategy of owning 60% of the land prior to drilling the first wells. In 2004, we are in a land acquisition mode. The keys to our exploration process for this unit are the 10 Exploration Principles set forth in the figure at the bottom of the page.



MATCHING THE 10 PRINCIPLES THAT DRIVE OUR EXPLORATION PROCESS



The California Exploration Business Unit was founded by Rosetta's joint venture partner, Jim Rennie, before Rosetta even existed.

Jim is a very respected finder with multiple discoveries at Gulf Oil, Wascana and for his own account. As Jim is wont to say, "today's geologists aren't given adequate time to thoroughly study the analogues."

Some years ago, Jim was conducting international exploration, which gave him an opportunity to study various analogues around the world in some depth. This is work that Jim continued on "his own nickel" after becoming an independent explorer in 1994. Some of the analogues Jim studied around the globe intrigued him, as he was able to see possible application of them to several basins in North America.

Jim has delivered several significant discoveries lately, including his 28 BCF Shunda discovery in Alberta; however, his passion is in pursuing a new play type—an untested frontier. Exploration within the Canadian industry has moved to British Columbia—thinking this a frontier—but Jim's thinking takes us to a less civilized place.

After seven years of analogue study, including paying particular attention to the potential for source rock, trap, possible porosity and charge, Jim reached a preliminary conclusion that his new play concept had significant potential.

Jim joint ventured with Rosetta in 2001 to pursue his new idea as a geologic satellite to our wildcatting operations. Rosetta and Jim are kindred spirits in the hunt for big reserves—and his California project certainly has potential for enormous reserves. Jim's original insights have been shephered by Mike Heule and supported by Paul Pedersen, Ross Clark and Derek Gillespie. Rosetta Advisor Hugh Reid was instrumental in introducing the California Team to international contacts familiar with this play type around the world.

Extensive regional studies have been conducted over a 14,400 square mile area during the period of seven years. Rosetta augmented Jim's work with hydrodynamic and pressure work, land acquisition and geophysical support. The results of all these studies are very promising.

There comes a time when a frontiersman prudently engages worldwide experts before testing an idea that has been rigorously worked for seven years. In 2004, Rosetta contacted and engaged world experts in Houston, Denver, the Colorado School of Mines and the US Geological Survey.

These experts have all added significant value to the idea and have endorsed Jim and Rosetta's seminal thinking. The potential is definitely present; the question is whether we can find it—and when we do—well ... how big will it be?

Jim and Rosetta have taken twelve early stage leads and, after two years of rigorous scrutiny, have reduced them to five projects. Test wells will cost less than \$2 million, so the California Unit qualifies as a Low Cost Exploration Business Unit.

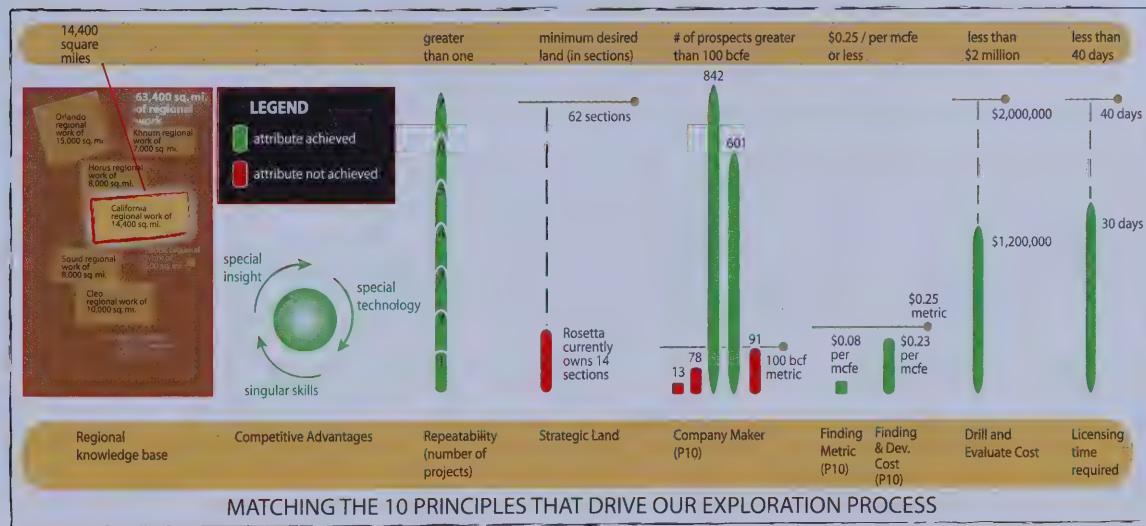
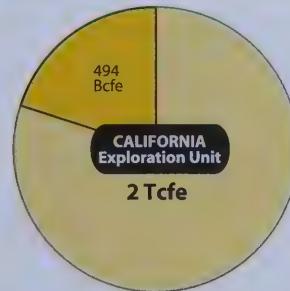
- Rosetta's 2004 objective is the drilling of one to three test wells, depending upon capital availability and activity within our other Exploration Units.

CALIFORNIA EXPLORATION BUSINESS UNIT



The adjacent figure shows that the California initiative is one of our Low Cost Exploration Business Units. If we're able to drill 10 California exploratory wells, we'll have an 89% cumulative chance of making one or more discoveries. 80% of the time, the discoveries will range between a low of 9 Bcfe and a high of 494 Bcfe, with a statistically most likely case of 226 Bcfe. The pie chart below shows these risked reserves against the backdrop of the sum of unrisked reserves of 2 Tcfe for our projects in this unit. The keys to our exploration process for this unit are shown in the 10 Exploration Principles, set forth in the figure at the bottom of the page.

RISKED PROBABILITY DISTRIBUTION: P90 / P50 / MEAN / P10 CASES





In late 2002, Ross Clark and a Rosetta Advisor were commiserating on the difficulty the industry has had in exploring for a certain oil reservoir over the past fifty years. Success rates hover around 6% on a good day.

Such topics are the fuel for conversations of this ilk—and these exchanges take place regularly in Rosetta's culture—a culture that breeds exploration ideas.

Ross has a depth of experience in exploring for the formation in question, which experience he gained at Canadian Hunter. Later, at Search Energy, Ross was quite sure he had a new insight to make a discovery; however, three test wells were dry, and the solid new geological model was left in a shambles. More statistics adding to the 94% failure rate ... but the information was indelibly imprinted on Ross' mind ...

One of Rosetta's Advisors re-kindled the information within Ross ... he was suggesting a new approach, a missing piece to the puzzle ... a new way to approach the trapping mechanism. The Khnum Exploration Business Unit was born with a mission: examine 2000 wells and determine if the new puzzle pieces formed a picture.

Working as a tightly knit unit, the Advisor and Ross delved into the minute details spanning a 7,000 square mile area. That's a lot of detail by anyone's measure. As they worked and reworked the samples, the logs and the geologic model, slowly but surely a phoenix began to rise from the ashes.

The insight of our Advisor was indeed the missing piece, a unique piece, a critical piece, a key to a new door. The pyramid was the same but the door was no longer on the left but rather on the right ... a new way in.

Since that time, Ross has generated four projects with considerable company making potential. Four to seven wells would be required to adequately test the new model.

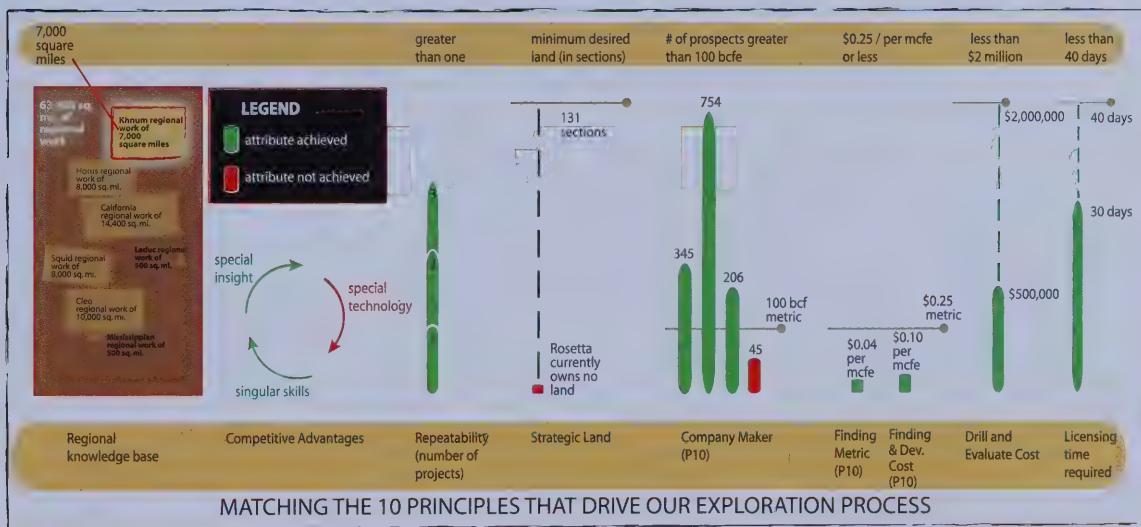
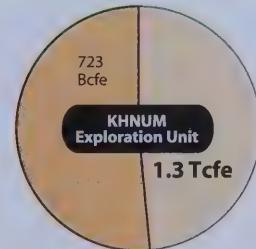
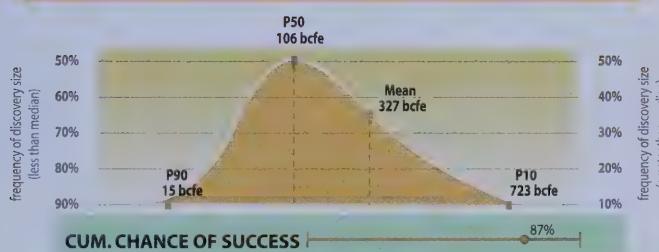
- Rosetta's 2004 objectives for this unit are land acquisition and the drilling of three test wells, subject to land success and budget considerations. Currently, the Khnum and the California Exploration Business Units are competing for drilling dollars. The way it should be ... lots of cream rising to the top ...

KHNUM EXPLORATION BUSINESS UNIT



The adjacent figure shows that the Khnum initiative is one of our Low Cost Exploration Business Units. If we're able to drill 7 Khnum exploration wells, we'll have an 87% cumulative chance of making one or more discoveries. 80% of the time, the discoveries will range between a low of 15 Bcfe and a high of 723 Bcfe, with a statistically most likely case of 327 Bcfe. The pie chart below shows these risked reserves against the backdrop of the sum of unrisked reserves of 1.3 Tcfe for our projects in this unit. The keys to our exploration process for this unit are the 10 Exploration Principles shown in the figure at the bottom of the page.

RISKED PROBABILITY DISTRIBUTION: P90 / P50 / MEAN / P10 CASES



The Orlando Exploration Business Unit is another example of persevering in the unknown. Like California, the genesis of this unit dates well back before the creation of Rosetta, and is based upon a most compelling idea.

Swan Hills discoveries represent 5% of Swan Hills tests drilled historically (14% these past five years per Canadian Discovery).

Does the conventionally understood model support all the known data?

In 1996, Oene Miedema was given an assignment to reconcile and establish the stratigraphic relationships of the Hamburg Slave Point gas field and the Caroline Swan Hills gas field. Oene attacked the issue with gusto. Everyone in the industry knows the geologic trials and tribulations in matching facies in the Swan Hills north and south of the Peace River Arch.

After working for a solid year, Oene concluded that the assignment couldn't be completed within the context of conventional industry wisdom and existing geologic databases. So Oene threw away the baby and the bath water. Convention and all the work to that point in time had to go. The exercise was now one of pure science. Work from the ground up—abandoning convention to find a new map, his own map—to uncover a new paradigm that could better fit the facts. *So what were the facts?*

Oene set out on the colossal task of establishing his own database for the 30,000 wells in Alberta that had penetrated the top of the underlying Elk Point Group. Using his own funding since his retirement in 1999, and ample elbow grease, Oene investigated 20,000 of those 30,000 wells in pursuit of the answer to the question first raised in 1996.

The result is over one hundred cross sections, and an equal number of heretical ideas ... followed by a lengthy review of Oene's sections, mapping and theories by Rosetta Advisor Allan Shepard. Allan agreed that the interpretations are plausible ... Dr. Bill Ayrton, another member of Rosetta's Advisory Board, who has always believed that good exploration involves examining "multiple hypotheses," had a similar response, offering a statement that Oene's insights were beginning to strike a chord around a number of questions Bill has harboured on the formation of the Swan Hills. Oene has formulated and substantiated a new concept about the origin and nature of oil and gas accumulations in the Slave Point and Swan Hills. The concept is radically different from the established and generally accepted theories. As with all true exploration, Oene's theory brings with it both risk and opportunity. But it's one of the few new ideas that have emerged in the Western Canadian Sedimentary Basin, and it points to the basin not being as mature as conventional wisdom dictates.

Oene joint ventured with Rosetta as a Geologic Satellite in June of 2002 and has continued detailing and expanding his new database. The results of the work are available only to Rosetta under the existing agreement.

In late 2002, Oene identified a 15,000 square mile area that he wished to explore using his new theory of Swan Hills formation. A new model—a new paradigm. Rosetta hired an international group possessing a remote sensing technology that has been decades in the making. Over the next year, this group completed a study of the 15,000 square mile area in question. Interestingly, the remote sensing study had a very high correlation with known production (in excess of 65%) and even more interestingly, the international scientists, working independently, predicted hydrocarbon accumulations in the same geography that Oene had predicted them in.

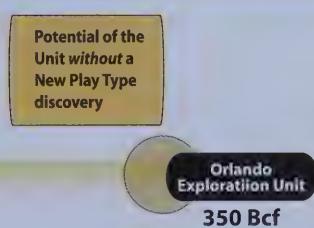
Oene, working with Rosetta geophysicist Caush Xhufi, is integrating the new geologic concepts with some 70,000 miles of 2D seismic data. Currently 200 early stage anomalous leads have been earmarked for further work. Rosetta's multi-disciplined work is now being brought to bear on this project.

- ① Rosetta's 2004 objective for this unit is to complete geological and geophysical work to the point of prospect generation. At that stage, Risk Management will determine if proceeding is warranted ... then more good science ... then strategic land acquisition ...

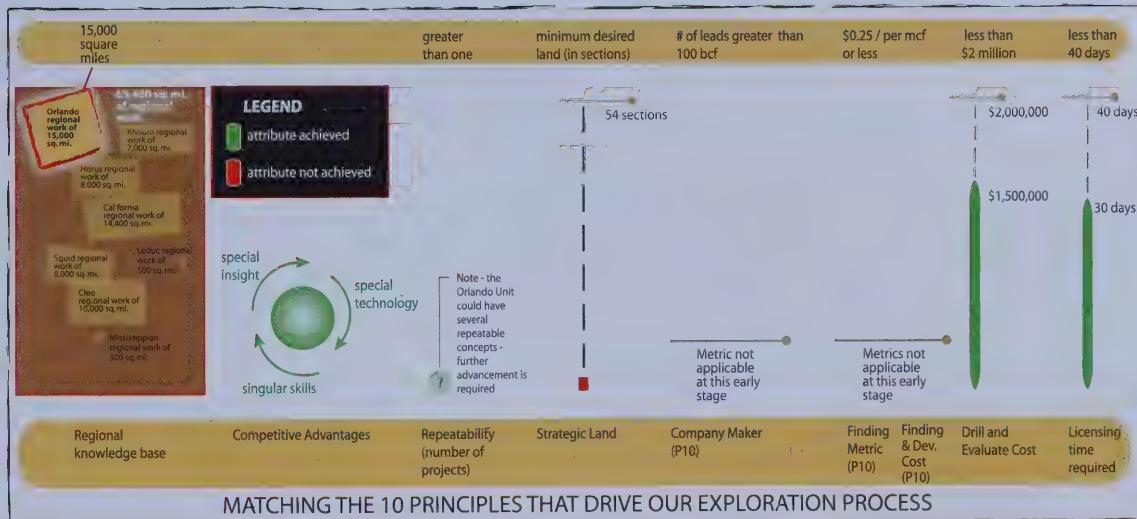
ORLANDO EXPLORATION BUSINESS UNIT



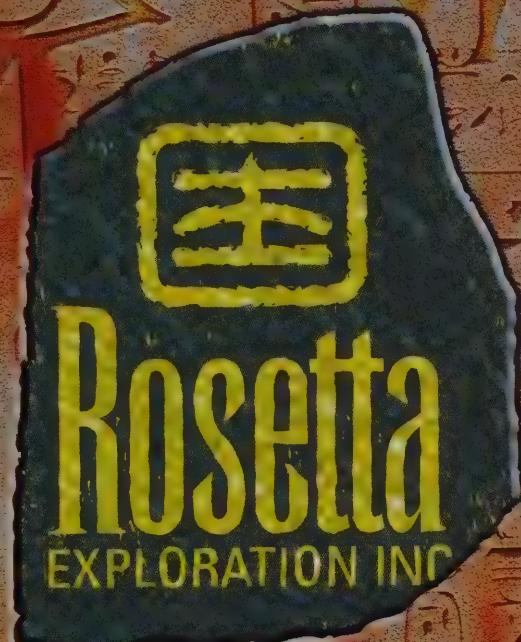
POTENTIAL OF THE ORLANDO EXPLORATION UNIT: 2 CASES



Potential of the Unit with a New Play Type discovery



The adjacent figure shows that the Orlando initiative is one of our Low Cost Exploration Business Units. We haven't developed any final prospects within this Exploration Business Unit. If the insights being pursued prove to be part of an existing play type, it's possible that the area under consideration could contain 350 Bcf of potential reserves. If, on the other hand, the insights lead to the discovery of a New Play Type, it's reasonable to postulate that such play could contain as much as 6 Tcf of potential reserves. The keys to our exploration process for this unit are shown in the 10 Exploration Principles set forth in the figure at the bottom of the page. As this unit is in the formative stages of development, we do not assess the possible size of prospects or the associated finding costs.





Over two hundred years ago, in North Africa, the discovery of a massive black basalt stone by French troops set forth a chain of events that would not only create new understanding, but re-write human history.

Named after the small Egyptian village where it was unearthed, the inscriptions found on the Rosetta Stone were the key to the deciphering of Egyptian hieroglyphics, which until then had remained a mystery for more than one thousand years. The key to understanding an ancient civilization had been unlocked. And with new knowledge came a new perception of the world.

This feat would not have been possible without the perseverance, inquisitive nature and detective work of Thomas Young and Jean François Champollion.

Much like the men who set out and succeeded in “cracking the impossible code” two centuries ago, our perseverance is for unlocking the key—the knowledge—that will change exploration. Our detective work—our exploration—will seek the key to chart uncharted territory and unlock prizes of 100 billion cubic feet or greater.

Many of our exploration keys are being crafted by our own team, through the development of a series of Competitive Advantages. In the area of New Play Types, we ask “what if” rather than limiting ourselves to “what is.” In Science & Technology, we have pushed the envelope in taking wildcat exploration techniques to a new level.

To address the risk of exploration, we built a team with extensive experience and an impressive track record of big discoveries. To this we added the disciplines of a risk management team.

Our map to discovery is our Rosetta Stone.

We’re on the right course. And we’re sticking to the map.

We’ve been patient and methodical and are now, we hope, poised for success.

Here’s the story of the people and systems that will take us there ... it’s the story of the people who have worked with alacrity these past years for their passion of wildcatting ... it’s the story of people, some of whom work for free, who have taken “nothing” and produced something very special indeed ...

... People creating something out of nothing
with A PRINCIPLED APPROACH ...

Rosetta has a Strong Belief System of:

- 1. Honesty and integrity**
- 2. Health, safety and the environment**
- 3. Building successful relationships**
- 4. Creating wealth**
- 5. Learning and improvement**

Board of Directors



Alfred Balm

Chairman of the Emergo Group of Companies

As Chairman of the Emergo Group of Companies, Alfred has pursued and developed business opportunities in Asia, South America, the Caribbean, Africa and Europe. He is a previous recipient of the Distinguished Business Leader Award from the University of Calgary, Faculty of Management, and was nominated for Emerging Markets CEO of the Year Award in 1994 at the Joint Annual Meeting, World Bank and I.M.F. in Madrid. Alfred brings to the company his vast international experience as Chairman of the Board of the Emergo Group of Companies, with a variety of interests worldwide. Emergo Energy led the Canadian oil industry into Russia after Perestroika with the successful establishment of his company, Canadian Fracmaster. Through Emergo Energy, the group holds a significant percentage of Rosetta. Alfred became a Rosetta Board member on September 24, 2002.



Kevin Brown

Chief Executive Officer of ARC Financial Corporation

Kevin is Chief Executive Officer of ARC Financial, one of Canada's leading financiers of energy companies. He is a member of ARC Financial's investment committee and sits on the Board of Directors of various ARC Canadian Venture Fund 1 and 2 investee companies.

His expertise in energy industry analysis, forecasting and related strategy formation is integral to the investment decisions of the equity group. Kevin had senior responsibility for ARC Financial's investment research business over the 1993-2001 period. He was also very active in ARC Financial's corporate advisory business through the 1993-98 period and was lead advisor on several significant engagements. Prior to joining ARC Financial in 1989, Kevin worked for a major Canadian research institute for several years where he was extensively involved in the development of economic models for both world oil markets and North American gas markets. Kevin has a Bachelor of Science (Chem. Eng.) degree and a Master of Arts in Economics degree. Kevin became a Rosetta Board member on July 19, 2000.



Murph Hannon

President of Canadian Hydrodynamics Ltd.

President of Murcon Development Ltd.

Murph is President of Canadian Hydrodynamics Ltd., a company that is home to the largest drillstem test library for the Western Canadian Sedimentary Basin. He also leads Murcon Development, a private investment company engaged in oil and gas exploration, real estate development, and various manufacturing and product development businesses. Murph has been involved with WestJet Airlines since its inception, and sits on that company's Board of Directors. WestJet has become Canada's most successful commercial airline. He became a Rosetta Board member on June 24, 1999.



James Malcolm

Chairman and Chief Executive Officer, Rosetta Exploration Inc.

Founder, President and Chief Executive Officer (1990-98) of AccuMap EnerData Corp.

Jim has abundant experience in building companies from the ground up. AccuMap created a software information system that revolutionized the Canadian oil industry, and was twice a finalist for an Alberta Science and Technology Award—as the oil industry's finest information system for explorationists and producing teams alike. AccuMap had garnered a 90% market share at the time Jim sold the company in 1998. Investors were rewarded with a 6000% return on their investment. Prior to AccuMap, Jim was a Managing Director of MerBanco Inc., a merchant bank. He was President of the MerBanco venture arm and in charge of growing the investment side of the business. Investments in industries as wide ranging as fish farming to cable television returned 600% to the firm over a three year period. Jim was appointed to the Rosetta Board of Directors in January of 1999 and became CEO in April of 1999. He has never stopped pushing the team to challenge their assumptions and to wildcat with both vigour and rigour.

... People creating something out of nothing by leading a LEARNING ORGANIZATION ...



Robert McKenzie

President, RSM Investments Ltd.

Co-founder and Partner with Northridge Canada

Co-founder of MetroNet Communications Corporation

Bob was CEO of E-Zone Networks Inc. from July 1999 until November 2000 and a Director from March 1998 to January 2001. Bob became the Executive Vice President of MetroNet Communications Corp. in 1997 and was a Director of MetroNet until its merger with AT&T in 1999. From January to December 1996, Bob was a consultant and strategic advisor to the CEO of TransCanada PipeLines Limited, prior to which he was President of TransCanada Energy Limited. Bob was a principal of and served as President of Northridge Canada Inc. and as Executive Vice President of Northridge Petroleum Marketing Inc., prior to its sale to TransCanada PipeLines. Bob became a Rosetta Board member on June 24, 1999.



Greg Royer

Chief Executive Officer, Royal Host Real Estate Investment Trust

Greg is a dynamic leader in Canada's hospitality industry. He and his brothers built one of the most successful hotel companies in Canada, the Royal Host Real Estate Investment Trust (REIT). The Royal Host REIT was created as a public entity in 1997, with the acquisition of 18 properties and an equity issue that raised approximately \$128 million. Prior to this, Greg and his brothers built the Relax chain of hotels, the Banff Rocky Mountain Resort and the Grand Okanagan Resort. His experience ranges from hotel development and construction to managing a chain of 27 hotels and resorts. Royal Host has established one of Canada's most successful sales and marketing teams. Greg has served on a number of national boards and organizations and he became a Rosetta Board member on January 24, 2000.



Michael Pfeiffer

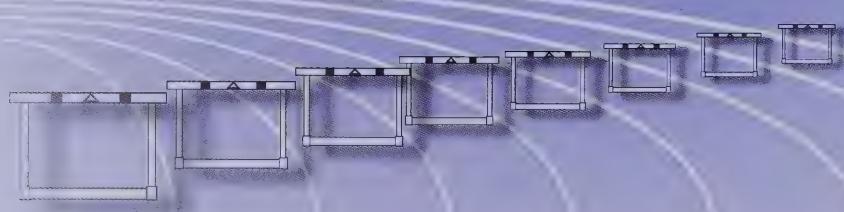
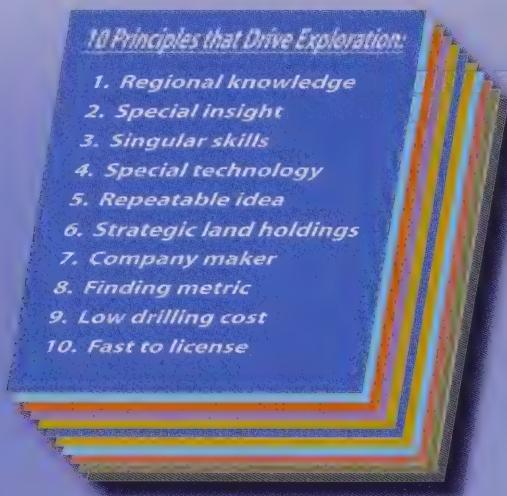
Engineer

President and CEO, QC Data

Executive Vice President of the Emergo Group of Companies

Mike Pfeiffer is approaching his eleventh year leading QC Data. Since taking office as President & CEO in 1993, he has guided the company through significant expansion and growth into its current position as the world's premier provider of outsourced data management and maintenance services for telecommunication and utility organizations. Mike has gathered some 30 years of experience in management, operations and engineering. He joined Hughes Electronics in 1975, after graduating from the University of Illinois with a degree in electrical engineering. He later completed the Loyola Marymount MBA program and various executive education programs at the University of Southern California and Stanford University. In 1990, Mike was appointed President & CEO of Hughes Canada, a role that would later draw him to his current position. Since joining QC Data, he has remained active in Calgary's leadership community and serves on various boards and educational committees. Mike is also Executive Vice President of the Emergo Group of Companies and became a Rosetta Board member on September 24, 2002.

... People creating something out of nothing
by APPLYING HURDLE TESTS ...



Exploration Advisory Board



Bill Ayrton, Ph.D

Professional Geologist, Ph.D Geology

Oil & Gas Industry Lecturer

Founder & President, Ayrton Exploration Consulting Ltd. & Flame Resources Ltd.

Bill, a professional geologist, is a well known industry lecturer who has built an impressive array of businesses during his 40 years of exploration in western Canada. He is founder and President of Ayrton Exploration Consulting Ltd. and Flame Resources Ltd., the former President and COO of Canadian Westgrowth Ltd., the founder and former President of Flame Oil & Gas Ltd. and Flame Energy Ltd., the former VP of Exploration at Petromark Minerals and Bluesky Oil & Gas, and was the former Chief Geologist for Amoco Canada. Bill has been involved with significant oil discoveries at Rainbow, Utikima, Harmattan and Taber South and conducted the study which led, in part, to the Fir gas field discovery. Bill also initiated and supervised the Lake Erie exploration program which led to the extension of the Clinton-Cataract gas field. During his time at Petromark, over 400,000 acres of land were acquired and 364 wells were drilled with a 75% success ratio. Highlights of Bill's career also include receiving the APEGGA Frank Spragins Technical Summit Award for technical expertise and professional contribution to the industry in 1996, being elected President of the Canadian Society of Petroleum Geologists in 1976, receiving the Society's Best Oral Presentation of a Paper Award in 1973, and in 1975, being Co-Chairman of the first joint CSPG-CSEG Convention in "Advances in Exploration Technology." He was the recipient of the Calgary Convention Centre North American Award in 1981, and was granted honorary membership to the CSPG in 1999 for the beneficial impact his activities have had on petroleum exploration in Canada. Bill joined Rosetta's Exploration Advisory Board in September 2001.



Nor Hannon Jr.

Professional Geological Engineer

Professional Geologist

Nor literally pioneered the use of hydrodynamics as an exploration tool in Canada some 43 years ago and went on to develop the Lithologic Resistance Mapping method. He served as President of Canadian Hydrodynamics for over three decades and during that time developed a comprehensive DST database that is used by over 125 companies today. Nor was the first to recognize that widespread separated gas shows in the shallow Milk River formation in southern Alberta and Saskatchewan were all part of one giant natural gas accumulation, contained in over 100 townships with total reserves of 10 TCF. The Milk River accumulation is a member of a unique collection of pools considered to be primarily hydrodynamically controlled traps. Nor is credited with helping in the discovery of over 1/2 TCF of gas in the Poco, Chinook, Sedalia and Ferrybank fields. Nor joined Rosetta's Exploration Advisory Board in June 1999.



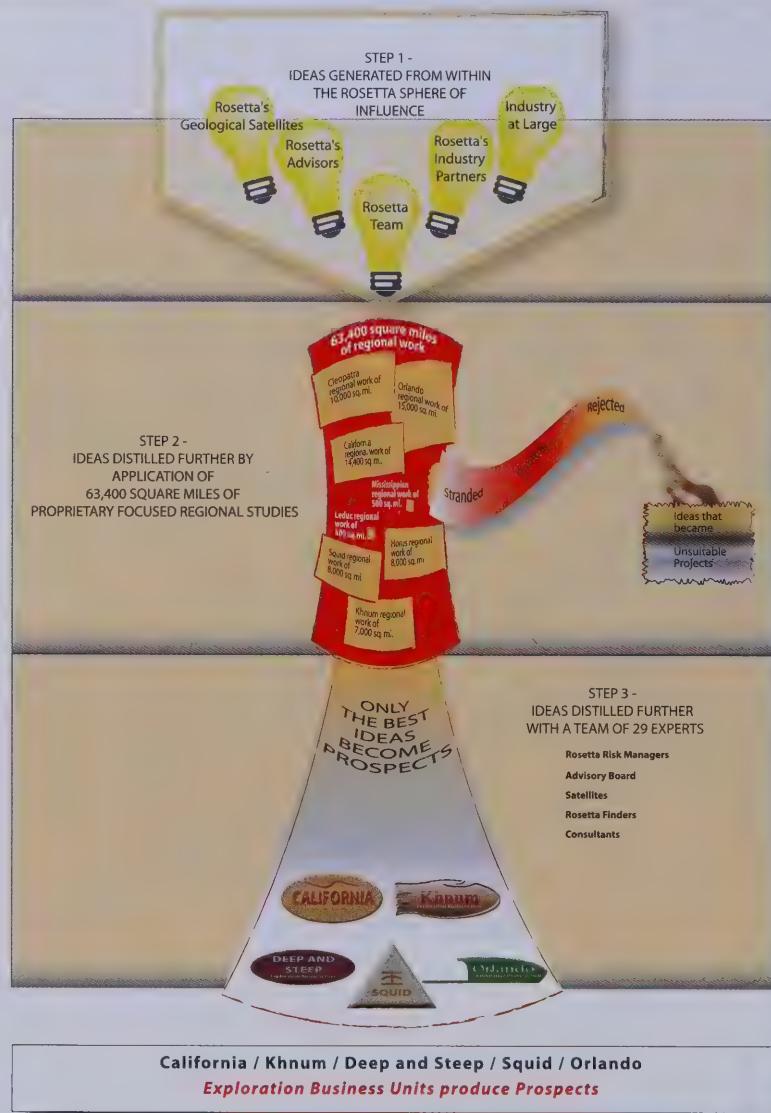
Ralph Hughes

Retired Professional Engineer

Former President and Vice Chairman, McDaniel & Associates Consultants Ltd.

Ralph is well known in the Canadian oil & gas business and spent almost 40 years with McDaniel's. From 1961 to 2000, Ralph evaluated most of the reservoirs in the Western Canadian Sedimentary Basin, from Virden Roselea west to Waterton, north to Amauligak and King Christian in the Canadian Arctic, as well as Ontario, the east coast and internationally. Ralph has prepared valuation reports that were utilized in approximately \$5 billion worth of mergers, acquisitions, and public issues. He has appeared as an expert witness before the Alberta Court of Queen's Bench, the "Old Bailey," the ERCB, the Securities and Exchange Commission of the United States, the Ontario Securities Commission and many more such organizations. The appearances involved many civil suits, two fraud trials and many reserves estimates for securities prospectuses. It was Ralph who made the application to the SEC that first allowed Canadian companies to discuss probable reserves in a prospectus filed with that commission. Ralph's experience also includes being the past Chairman of APEGGA's consulting practice committee, the past Chairman of APEGGA's full experience committee of the Board of Examiners, and a retired member of APEGGA, SPE, SPEE, and CIM. Ralph joined Rosetta's Exploration Advisory Board in September 2001.

2
3
... People creating something out of nothing
with INTENSE, RELENTLESS SCRUTINY ...



Exploration Advisory Board

(continued)



Ed McMaster

Professional Engineer

President, McMaster Consulting Services

Former Vice-President Operations, Shell Canada Limited

During his 28 year career at Shell Canada, Ed gained extensive operational and technical experience in the upstream resources business including oil and gas drilling, production, reservoir, and petrophysical engineering. Ed retired from Shell Canada in 1994 in the position of VP Operations with responsibility for Shell's producing operations. Since that time he has been the President of McMaster Consulting Services, a company providing oil and gas operations management and senior management training in High Performance Work Systems developed to foster Learning Organization tenets. Ed's construction project experience included the in-situ Peace River Expansion Project. Operational sour gas experience included that of drilling foreman, production superintendent, drilling manager, and senior executive positions at Shell. Industry committee memberships included the Advisory Committee to the ERCB on Public Safety and Sour Gas, Southern Alberta Institute of Technology - Petroleum Technology Advisory Board, Chairman of the Drilling Committee of the Canadian Petroleum Association, and the Upstream Petroleum Industry Task Force on Safety. Former directorships include Peace Pipe Lines Ltd., Rainbow Pipelines Ltd., Exchange Resources Ltd., and Addison Energy Inc. In September 2002, he joined the Board of Directors of the Petroleum Industry Training Service. Currently Ed is Chairman of the Board of Directors of the Petroleum Industry Training Service, and is a member of the Board of Directors for CDS Oil and Gas Limited, a UK registered private company. Ed has been a member of Rosetta's Exploration Advisory Board since November 2001.



Hugh Reid

Professional Geologist

International Petroleum Consultant

Hugh is an internationally recognized expert in exploration well test (DST) interpretation and hydrodynamics. His training seminars in "DST Interpretation for Geologists and Engineers" have been presented in over 17 countries to more than 200 companies over the past 25 years. Hugh has over three decades of experience in DST analysis and hydrodynamics, seven years with Mobil Oil, and over 25 years as an independent DST analyst, including four years as technical manager for Delta P Test Corporation (specialized DSTs in tight gas sands). He has authored several DST manuals and technical articles on formation damage, closed chamber DSTs in tight gas sands and exploration hydrodynamics. Hugh's interest in well tests is not in detailed mathematical treatment, but instead in practical aspects, using the pressure charts to troubleshoot for problems, particularly in badly damaged zones. He uses these skills to locate by-passed production (missed pay) in old wells, which can be re-drilled or re-entered. He is a pioneer in this method of prospecting "directly" for oil & gas in the Canadian industry. He enjoys passing these skills on to participants at seminars or through consulting. Hugh is a past President of the Canadian Well Logging Society, and is a member of SPE, AAPG, CSPG and APEGGA. Hugh joined Rosetta's Exploration Advisory Board in June of 1999.

Exploration Advisory Board (continued)



Allan Shepard

Retired Professional Geologist

Former President and CEO, Canadian Wolverine Ltd.

Former Vice President Exploration, Amoco Canada

Former Vice President, Amoco Europe & West Africa

Allan is a retired professional geologist with over 40 years of experience focused on exploration both in Canada and internationally. He was formerly VP of Exploration at Amoco Canada, Chief Geologist at Amoco International in Chicago, VP of Amoco Europe & West Africa, and was President and CEO of Wolverine Exploration's (formerly American Quasar) Canadian subsidiary, Canadian Wolverine Ltd. His work at Amoco Canada resulted in the acquisition of extensive acreage positions both abroad and in western and eastern Canada's more prospective areas, the drilling of which resulted in finding and developing major oil and gas reserves. Allan joined Rosetta's Exploration Advisory Board in September 2001.



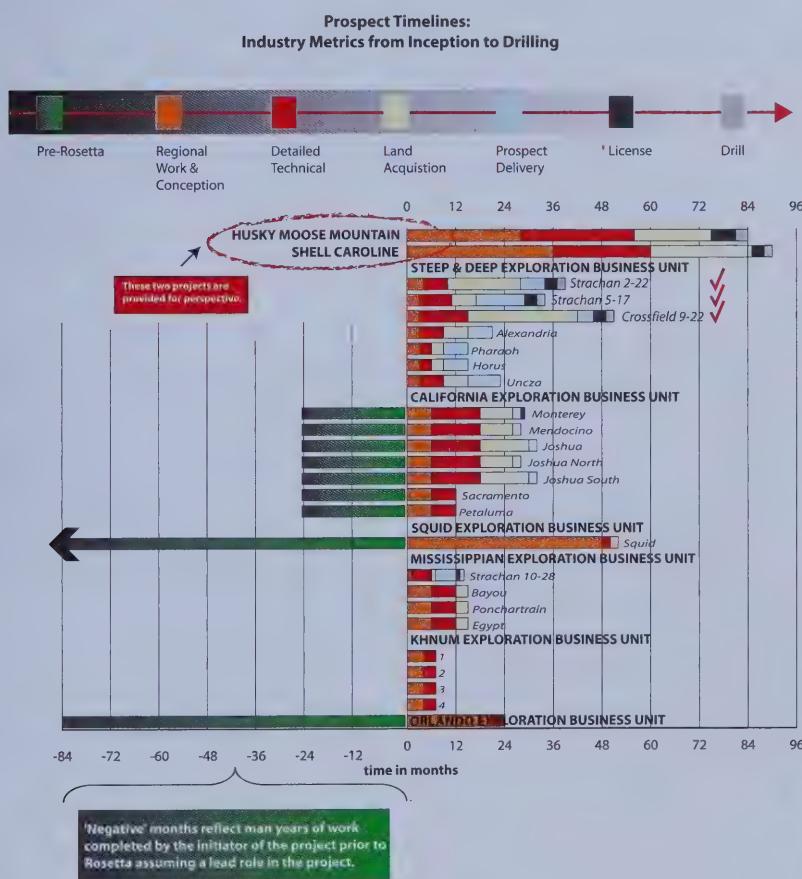
A. Easton Wren, Ph.D.

Professional Geophysicist

Founder & former President, Petrel Consultants

Easton is an independent consultant, geophysicist and industry lecturer who is widely recognized as a leader in the application of new seismic techniques. His career has spanned over 31 years. Easton was the founder & former President of Petrel Consultants and has held positions with Ray Geophysical Company in Libya, the United Nations in Uganda, Amoco Canada and PanCanadian Petroleum. Easton made a technical contribution to gas discoveries in Lake Erie, the oil play in the Granite Wash at Red Earth in northern Alberta, and was involved with the Cardium oil discoveries at Carrot Creek and Cyn Pem northwest of Pembina. He has lectured at U.S. and Canadian universities, has been an associate of the GSC, was elected President of the Canadian Society of Exploration Geophysicists for 1981, received the Society's Best Paper award in 1974, the Meritorious Service Award in 1977, and Honorary Membership in 1988. Easton has authored several papers on seismic processing and interpretation, is a past editor of the Journal of the CSEG and was General Chairman of the joint CSEG-CSPG Convention, Exploration Update, 1979, and was Distinguished Lecturer for the American Association of Petroleum Geologists in 1987. He is also an active member of SEG, CSEG and APEGGA. Easton is currently a Director of EurOil Ltd. a Scottish company engaged in exploration activities offshore West Africa. Easton joined Rosetta's Exploration Advisory Board in October 2001.

... People creating something out of nothing TAKES TIME ...



Team of Finders



Ross Clark
Managing Director
Geologist
Risk Manager

Ross has 32 years of experience in the oil and gas business. At Unocal Corporation, he participated in several major discoveries in the Norwegian North Sea totaling in excess of 1 TCF of gas, the Gulf of Thailand (over 700 BCF of gas), and established an exploration framework for the Sinai Peninsula and Gulf of Suez, Egypt. He co-founded Search Energy and participated in its growth to a \$50 million company by leading a successful exploration and development team. At Coparex Canada, he established a new core area at Thornbury and worked on developing the North Cecil Charlie Lake and Kiskatinaw gas pools. Here at Rosetta, Ross heads our geo-science initiatives. He has extensive expertise in Cretaceous and Mississippian zones and provides geological overviews of all our Prospects. Ross currently serves as the co-chairman of the AAPG Education Committee, was Associate Editor of the AAPG Bulletin (1998-2000), served as the AAPG Haas-Pratt Distinguished Lecturer for 1995-96, and was an associate editor of the McGraw-Hill Yearbook of Science and Technology (1991-93). Ross has given more than 20 oral papers and published more than 30 professional papers.



Keith Edwards
Geophysicist

In a career spanning 20 years, Keith has designed and interpreted many complex seismic programs and developed, designed and utilized seismic software, both as a consulting geophysicist and as a software company employee. Keith's consulting work in the Hamburg area of Alberta led to the discovery of 50+ BCF in several Slave Point discovery wells. As a geophysicist at Boyd Exploration Consultants from 2001-02, Keith focused on depth conversion and seismic for non-oil and gas exploration. As Operations Manager at eSeis Canada from 1999-2001, he developed expertise in interpreting pre-stack data, AVO analysis, seismic inversion, and LithSeisTM for 2D and 3D projects. From 1996-99, Keith was Senior Geophysicist at AEC West, where he performed both stratigraphic and structural geophysical support and interpretation for 100+ BCF play types, including the Swan Hills and Slave Point in western Canada. Keith was involved with the design of a new suite of geophysical software as a Geophysical Application Specialist at Digi-rule Inc. from 1995-96. He served as President of Sandlapper Support Services Ltd. from 1990-96, a company offering an extensive range of geophysical interpretive services, and held multiple positions at Geophysical Microcomputer Applications (1984-90) including Director and Corporate Secretary. Keith is Rosetta's Chief Geophysicist and his varied background in geophysical software, interpretive processing and interpretation serves Rosetta well. Keith presented at the 1992 AAPG National Convention and at the 2000 SEG Annual Meeting. He is a member of APPEGA, CSEG and SEG.



Rod Morris
Geologist

Rod's career began in 1979 at Dome Petroleum, where he was involved in a number of exploratory successes. He was a key member of the team in Dome's participation in what became Shell's Caroline discovery of over 2.2 TCF of gas. In 1987, Rod joined the Petrel Robertson group to advance his skills in hydrodynamics, reservoir evaluation and seismic. While at Petrel, he consulted to domestic and international oil companies. In 1994, he joined Mannville Oil & Gas and put the company into the Berkley-Mannville Carstairs Elkton discovery. After Mannville was sold to Gulf in 1995, Rod became an independent businessman. Here at Rosetta, Rod leads our Swan Hills group of value creators from a geological perspective. He is a strong believer in "conventional" geology—geology that is more widely accepted within the industry at large—yet still innovative and methodical. Rod's presentations at the SEG, CSEG and CSPG have consistently received Honourable Mention status. In 1993, he was co-author of a paper on a new seismic acquisition, processing, and interpretation technique that won Best Paper Award at the CSEG.

... People creating something out of nothing by completing PROPRIETARY REGIONAL STUDIES ...



Paul Pedersen

Director, Engineering Services

Paul had a successful 20 year career at Ocelot Energy. As a senior reservoir specialist for over 15 years, his exposure to practical reservoir and production engineering has been extensive. Paul's disciplines of expertise include: reserves assessment and evaluations; pressure transient analysis; well production optimization; formation evaluation; application of under balanced horizontal drilling; using hydrodynamics in the exploration and development process; and, oil and natural gas property acquisitions and dispositions. These skills mesh on a daily basis at Rosetta, where Paul works with geologists to firm up the practical aspects of their ideas, including performing economic hurdle tests.



Grant Pitcher

Geologist

In a career spanning some 47 years, Grant discovered the Strachan gas field with over 1.4 TCF of gas reserves, extended the Nevis D2/D3 reef field by 5 square miles and added 30% to the reserves, discovered the Nevis Cretaceous pool which produced over 500,000 barrels from the discovery well, extended the Bellshill Lake Basal Quartz oil field which led to the adding of over 95 million barrels, discovered the Birch Lake Glauconitic sand gas field which led to the development of over 2 TCF of gas reserves in the area, and discovered what became the Ponoka Viking-Colony sand fields with reserves of over 5 million barrels of oil. Grant strongly believes that there are still multiple TCF of reserves yet to be discovered in the Basin on his ideas alone. One such idea is a New Leduc Play Type project called "The Squid," which was advanced significantly in 2003. Rosetta is focusing on New Play Types to be able to see the Basin in a new light.



Caush Xhufi, Ph.D.

Exploration Geophysicist

Caush graduated with a B.Sc. in Geophysics from Tirana University, Albania, in 1973 and went on to earn his doctorate in geophysics in 1990. As an exploration geophysicist at the State Oil and Gas Institute in Albania, he successfully explored for and evaluated new prospects for over 20 years. It was there that Caush developed his expertise in evaluating shallow and deep prospects and a wide array of hydrocarbon traps including structural and stratigraphic plays in the Albanides Thrust Belt zone, and in the Adriatic Basin. While at Chevron Overseas Albania Ltd. (1991-1993), Caush completed numerous seismic and geological interpretations in Chevron's Adriatic 4 Offshore Block. He was responsible for the first exploration oil well at Hekal-5, in the Hekal-Karunara field, Albania, with reserves of 150 million barrels of oil and was responsible for the Zharrez-1 well in the Patos-Marinze oil field, adding reserves of 30 million barrels of oil. Caush has significant expertise in regional exploration and evaluation, working with multi-disciplinary teams in the areas of geology and geophysics. His expertise in structural plays has been instrumental in more accurately defining Rosetta's Foothills group of Prospects. Caush is an active member of AAPG, EAGE and CSEG.

... People creating something out of nothing by CREATING OPTIONALITY ...



As a Learning Organization, Rosetta Believes in Working in Learning Units for:
Risk Management, Exploration and the Focus of New Science

Risk Managers

Glenn Gradeen
Ross Clark
Robyn Lore
Mike Heule
Greg Kondro

To foster new ideas, and to lower the technical risk associated with drilling a Prospect, we created a multi-step due diligence process that incorporates a balanced peer review system.

California

Rosetta Team Leader	Mike Heule
Rosetta Team	Paul Pedersen Ross Clark Derek Gillespie
Advisory Board Team	Allan Shepard Hugh Reid

Squid

Rosetta Team Leader	Jim Malcolm
Rosetta Team	Paul Pedersen Ross Clark Keith Edwards
Advisory Board Team	Allan Shepard Bill Aylton

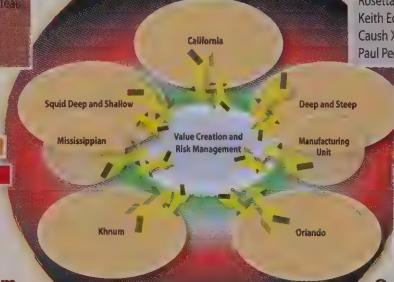
Mississippian

Rosetta Team Leader	Ross Clark
Rosetta Team	Paul Pedersen Ross Clark

Khnum

Rosetta Team Leader	Ross Clark
Advisory Board Team	Nor Hannon Hugh Reid

Rosetta's Exploration Business Units



Deep and Steep

Rosetta Team Leaders	Ross Clark, Rod Morris
Rosetta Team	Keith Edwards Hugh Reid Nor Hannon
Advisory Board Team	

Manufacturing Unit

Rosetta Team Leader	Ross Clark
Rosetta Team	Paul Pedersen Keith Edwards

Orlando

Rosetta Team Leader	Jim Malcolm
Rosetta Team	Caush Xhufi
Advisory Board Team	Nor Hannon

Our risk managers lie at the heart of the system, allocating the scarce monies that are sought after and competed for between each of our exploration business units.

New Science (underpins our exploration)

Rosetta Team Leader	Glenn Gradeen
Athentech	Brian James -Sam Lau -Keith Edwards
Geochimistry	Ross Clark
Vegetation	Glenn Gradeen
Skyhunter	Glenn Gradeen
Advisory Board Team	Glen Wren

We work rigorously to avoid "gambler's ruin" with a single minded dedication to creating "optionality" via seven exploration business units.

Satellites, Partners and Consultants

Thomas Kubli, Ph.D. - Consultant

Professional Geologist

Thomas acts as a consultant to Rosetta and is leading our Foothills initiatives. He received his Ph.D. in Geology in 1990 from the University of Calgary. His area of expertise is the structural definition of prospects in tectonically disturbed belts, ranging from basin analysis and play type definition to detailed work in stratigraphy, data compilation, seismic interpretation, reservoir analysis and detailed structural analysis. Dr. Kubli brings extensive experience as a field geologist with over 13 years as an expert in structural geology, generating and evaluating prospects with Foothills exploration in Alberta, B.C. and N.W.T., including five years with Mobil Oil. Thomas provided structural expertise and guidance in the successful drilling of the first horizontal well in the Foothills, at Savanna Creek, resulting in 300% production rate increase. His independent field work has comprised structural geology, carbonate and clastic sedimentology, stratigraphy and metamorphic petrology. Thomas taught at the University of Calgary and Mount Royal College and was a recipient of the Mobil Oil Pegasus Award.

Oene Miedema - Satellite and Joint Venture Partner

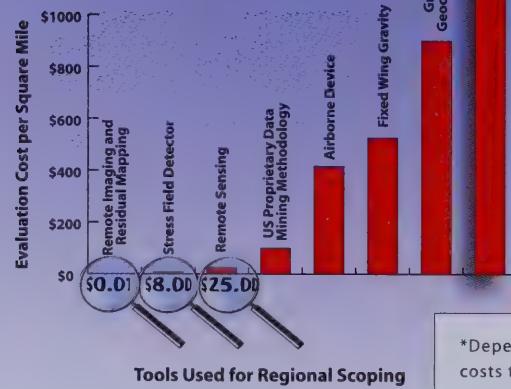
Professional Geologist

Oene (Owen) Miedema graduated with a M.A. in Geology from the University of Saskatchewan in 1961. Ever since he has been active in hands-on exploration in various capacities, both in the employ of oil companies and as an independent entrepreneur. His efforts in exploration geology took him from the Western Canada Sedimentary Basin to the basins of the United States, Africa, the Middle East and Europe. From early practical schooling at Pan American (Amoco) he joined the staff of Canadian Industrial Oil and Gas, where he was one of the successful explorers in developing the Zama Keg River sub-basin. His first effort at independence came in the form of a geological consulting company called Vista Consulting Ltd. This geological consulting firm was merged into a geophysical consulting company called Geocan Exploration and Development. This company was later renamed as Voyager Petroleum Ltd, one of the more successful independent companies of the seventies. Voyager's initial successes in central Alberta and Zama were based upon Oene's geological input. His second effort at independence came in the form of Nordic Petroleums Ltd., an Alberta company specializing in stratigraphy and land accumulation with longtime friend and partner, Jimmy Shields. Pan Ocean Oil was one of their clients and they found two Second White Specks gas fields in Western Saskatchewan that are still producing today. Nordic also sold some of its producing properties in the Weyburn area of central Saskatchewan to Sun Oil Company and Canadian Reserve Oil and Gas Company. Oene later joined the staff of Canadian Reserve and was initially asked to move to Denver to manage the international exploration efforts of Canadian Reserve's parent, Reserve Oil and Gas Company headquartered in Los Angeles, California. The international effort resulted in commercial discoveries in Colombia's Putamayo Basin (Nancy and Burdine fields). Exploratory wells were drilled on prospects in the Gulf of Oman and the North Sea, without commercial success. Reserve then asked Oene to become Vice President of Exploration—and in that capacity he was engaged in successful efforts in the shallow waters of the US Gulf Coast (South Pelto Block). Oene returned to independence and formed Nordic Petroleums Inc. In the late seventies and early eighties, this company established production from exploration efforts in Texas (Coleman and Runnels County), California, Oklahoma and Colorado, where Nordic acquired a dominant land position in the developing Nacimiento/Codell formations adjacent to the Wattenberg field. The downturn cycle of the eighties saw Oene return to Calgary, where he worked as a geological consultant to Wolverine Exploration, Poco Petroleums and Conwest Exploration, completing a career cycle as an employee of Alberta Energy when that company acquired Conwest in a friendly takeover. Working with Keith Edwards, P. Geoph., a great deal of time was spent in co-ordinating the geology and geophysics of the Beaverhill Lake Goupe in the Hamburg-Ladyfern sub-basin, which work resulted in commercial fields for Poco Petroleums. Following retirement in 1999, Oene conducts geologic studies out of his office in Calgary and has entered into an exclusive contract with Rosetta. To date, Rosetta has not tested any of Oene's prospects.

... People creating something out of nothing ECONOMICALLY ...

We're reducing finding costs by testing and using remote sensing technologies to lower our exposure to the high cost of seismic.*

3D seismic costs approximately \$50,000 per square mile to acquire. To lower our regional exploration costs dramatically and to high grade our seismic acquisition, Rosetta has experimented, gained deployment skills, and achieved some exclusivity with each of these identified regional tools:



*Dependence upon seismic has caused seismic costs to rival land costs and drilling costs in the exploration process, with a concomitant increase in finding costs.

Satellites, Partners and Consultants (continued)

... People creating something out of nothing by TAPPING THE SYNERGIES OF DIVERSITY...

James Muraro - Joint Venture Partner

Professional Geophysicist

James has 20 years of exploration experience at companies including Chevron, PanCanadian, Anderson, and a number of smaller exploration companies. Primarily as a geophysicist, but also working as a geologist at times, his experience ranges from close-in development to frontier exploration. He places a special emphasis on integrating the interpretation of seismic data with all other pertinent technical data describing and constraining each exploration project. James brings to this integration his own robust foundation in geophysics, built upon years of experience in processing, field acquisition and interpretation. Over the years he has also been involved in the management of exploration efforts of small and large companies alike. During his time as Exploration Manager of Frontiers Exploration at Anderson Exploration, James was a driving force in growing the company to a dominant position in frontiers exploration in Canada. James has also been involved with successful development projects at Wembley and Rycroft. Reserve additions of 8 BCFE on the aforementioned projects are largely attributable to the aggressive use of 3D seismic and integration of the seismic data with well bore and reservoir information. Success on exploration projects such as the Foothills West Chicken discovery (24 BCF) while at Anderson came by working closely with his geologist to thoroughly integrate surface geology and limited well bore data. James also enjoyed success when executing both the geology and geophysics functions on exploration projects at Heart River and South Provost (12 BCF). Here at Rosetta, James is the value creation leader of our Mississippian Exploration Business Unit, which Unit had its first successful discovery in 2004.

Jim Rennie - Satellite and Joint Venture Partner

Professional Geologist

Jim is founder and President of J.R. Exploration Ltd., a private exploration company established in 1994. He is an established oil and gas finder. J.R. Exploration discovered Brazeau River 13-15-48-12W5M, a new pool discovery (Shunda F pool), which pool has produced 23 BCF since 1998. Prior to leading J.R. Exploration, Jim was involved with Saskoil / Wascana, where he spent one year in international exploration and three years exploring western Canada, mapping some 54 prospects in the Cynthia Basin, west of the fifth meridian. From 1979-88, while at Gulf Canada Resources, Jim achieved a 58% success rate on exploration wells and a 90% success rate on development wells. Jim was the originator within Gulf of the prolific Caroline 8-1-36-6W5M prospect, convincing management to drill the well in the face of stiff opposition. Caroline 8-1 has produced 130 BCF to date and is still producing 24 mmcfd, after having peaked at 53 mmcfd. Projected reserves call for 220 BCF. Jim pioneered the completion technique on the Wabiskaw formation which later produced Canadian Natural's success at the Brintnell and Sandy fields (80 million barrels and 65 BCF produced to date). Other notable successes that Jim was involved with include the Enchant 14-22 well, with 2.9 MMbbls and the Weir Hill 9-29 well, with 1 MMbbls. Jim, a Rosetta satellite, is also the value creation team leader and our joint venture partner on the California New Play Type group of prospects, an initiative he spent many years refining with studies that have taken him around the globe. The California New Play Type is now ready to be tested in western Canada.

Risk Managers



Glenn Gradeen
President & COO
Risk Manager
Engineer

Glenn graduated in 1978 with a BSc in Geological Engineering from the University of Windsor. Glenn held several senior management positions at Ocelot Energy Inc., including Vice President, Operations from 1987-1995, Executive Vice President from 1995-97 and President and Chief Operating Officer, from 1997-99. During his tenure, Glenn was part of the team that designed and implemented the financial turn-around of Ocelot. During the period 1985 to 1999, he built a strong technical team and oversaw the development, optimization and successful disposition of nearly \$1 billion worth of oil and gas properties. In 1999, Glenn left Ocelot to pursue exploration opportunities in Western Canada with Jim, Robyn and Rosetta Exploration Inc. Based on market supply and demand information and the lack of true exploration effort in North America, he believed that there would soon be a natural gas supply shortfall. Glenn was instrumental in developing Rosetta's portfolio approach to exploration. Glenn has helped raise over \$35 million in equity capital for Rosetta over the past four years, has built corporate awareness within the investment community and introduced Rosetta to numerous drilling partner candidates. Glenn was formerly a Director of Ocelot and a Director of Alpine Oil Services Corporation, both listed on the Toronto Stock Exchange. He is presently a Director of Pd&e Resource Services Corp. – a TSX Venture Exchange listed company, and Cirrus Energy Corp. – a private international energy company.



Michael Heule
Vice President, Business Development
Risk Manager
Engineer

Mike's business development skills were elemental to the creation and continued management of the business model for our "California" New Play Type. Working closely with one of our geological satellites and the Rosetta team, the initiative has recently produced several leads and two prospects that are ready for drilling this year. His project management strengths and detailed attention over the financial, accounting and office administration functions continue to ensure that projects' resource and timing requirements align. He also has extensive expertise in oil and gas marketing. Mike was formerly the Vice President of Marketing and Special Projects at Ocelot Energy, where he was responsible for financial and marketing functions, as well as project negotiation and management of one of Ocelot's overseas projects in Africa.

... People creating something out of nothing via RIGOROUS PORTFOLIO MANAGEMENT ...



Greg Kondro

Vice President, Operations

Risk Manager

Engineer

Greg was formerly the Vice President of Production at Ocelot Energy. He has successfully managed and completed multi-million dollar and multi-faceted projects including drilling, facility development, infrastructure set-up and operations both domestically and internationally. Greg has expertise in full cycle field development requirements, including technical and administrative aspects for oil-gas and sweet-sour environments. This work has continued at Rosetta, where he has overseen the safe drilling of several deep wells in the Strachan area, and most recently, the 3600 metre Crossfield well. His proactive approach has fortified Rosetta's reputation for safe drilling and fair business practices with public agencies, local residents and partners alike. Greg's expertise also includes operating in extremely remote areas. He is a registered professional engineer in Alberta, British Columbia and Saskatchewan.



Robyn Lore

Managing Director

Risk Manager

Robyn has held numerous senior positions over his past 23 years in the industry including: President of Petroland Services Ltd.; Director and Corporate Secretary of New Cache Petroleum Ltd.; President and Director of Aldona Resources Ltd.; and, President of Granisko Resources Inc. While at Granisko, Robyn grew the company from \$10,000 per month in total revenue to owning more than 100 kilometres of pipelines, 50 square miles of 3D seismic, 60,000 acres of land, a sour gas plant and effective control over the north part of the Rainbow Basin. Robyn built the technical team involved with this growth, and his 17 acquisitions and developments saw the company's assets grow in less than two years from \$1 million to an appraised value of more than \$200 million. This growth was financed by \$60 million of new capital, including \$50 million in high yield bonds. Granisko was caught when gas prices collapsed in 1994, rendering the company incapable of meeting its obligations on the high yield bonds.

Balance

the first time in history that the world's population

had reached one billion people.

It was also the first time that the world's population

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It was also the first time that the world's population

Financial Reporting

Analysis of Total Expenditures

Metrics

Management's Discussion and Analysis

Audited Financial Statements

“Only those who risk going too far can possibly find out how far they can go.”

T.S. Elliot



Analysis of Total Expenditures

At Rosetta, we're endeavoring to create a balanced portfolio of drillable projects by advancing our Plays and Leads into Prospects, using conventional means and by investing in New Play Types and Science & Technology. *Plays* are broader geological concepts for a trend area that require innovative geological thinking and minor amounts of geophysical scoping. Successful Plays develop into *Leads*, at which time detailed geophysical work and rigorous geotechnical input more closely define the drillable location, and a land acquisition strategy kicks in. Successful Leads become drill ready *Prospects*. The graph below focuses on the allocation of Rosetta's total expenditures (capital expenditures plus allocated G&A) across Conventional and New Play Type Plays, Leads and Prospects, and Core Technology. It shows investments that have become: *stranded*; *disproven* based upon new information and/or drilling results; *producing* - identifying appropriate completion and tie-in costs for successes; *to be advanced* pending further work; and, investments associated with our targeted near term drilling program—what we refer to as being *active*.



Prospects that are *assessing future value* have been drilled and are continuing to evaluate uphole zones and/or retesting the original geological concept. Prospects that are *producing* are successful, tied-in and producing. Should the deep concept be unsuccessful, costs for drilling are assigned to *disproven* and completion and tie-in costs for the secondary zones are assigned to *producing*.

New Play Type Expenditures

Conventional Project Expenditures

New Play Type Expenditures

	Prospects
\$ 630,000	Active
\$ 1,036,000	Disproven
\$ 1,666,000	

	Leads
\$ 1,044,000	Active
\$ 1,044,000	

	Plays
\$ 661,000	Active
\$ 91,000	Disproven
\$ 752,000	

Total New Play Type Expenditures
\$ 3,462,000

New Play Type Prospects

Conventional Prospects

New Play Type Leads

Conventional Leads

New Play Type Plays

Conventional Plays

Our People

Core Technology

Stranded projects means that some land assets become stranded because they're no longer supporting a current project. Stranded projects also occur when we bid at land sales on acreage we consider to be of "A" and "B" quality and are only successful on our bid for the "B" acreage. Management considers the "B" acreage stranded until the "A" land purchaser defines activity on their lands. Rosetta is actively engaged in redeploying its capital by disposing of stranded properties and/or farming them out to industry participants.

Rosetta's challenge is to constantly allocate its limited time and money between our exploration business units. This means that projects compete for funds and our daily / weekly circumstances dictate our judgement of best use of funds. The preceding figure is a snapshot of where we stand after four years of tough decisions.

Conventional Projects Expenditures

	Active	Drilled - Producing	Drilled - Assessing Future Value	To be advanced	Disproven
\$ 3,247,000					
\$ 1,462,000	Active	Drilled - Producing	Drilled - Assessing Future Value	To be advanced	Disproven
\$ 6,529,000					
\$ 1,615,000					
\$ 7,860,000					
\$ 20,693,000					

Total Expenditures Include Capital Expenditures and project allocated G&A between July 1999 and December 2003

	Active	Drilled - Producing	Drilled - Assessing Future Value	To be advanced	Disproven
\$ 3,410,000	Active	Drilled - Producing	Drilled - Assessing Future Value	To be advanced	Disproven
\$ 1,459,000					
\$ 4,869,000					
\$ 9,738,000					

Total Conventional Expenditures

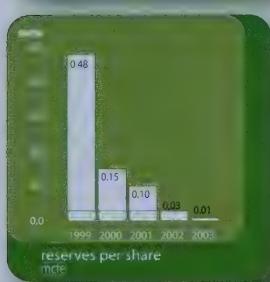
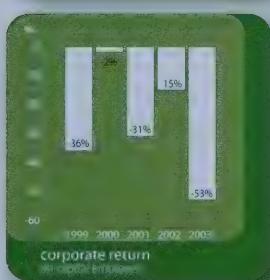
	Active	Stranded	Disproven
\$ 339,000	Active	Stranded	Disproven
\$ 981,000			
\$ 1,320,000			
\$ 1,498,000			

Metrics

Our Target Metrics:

- 1 - Generate a portfolio of twelve 100 BCF drilling prospects
- 2 - An annual 21% after tax rate of return on capital employed
- 3 - A finding cost of under \$0.25 / MCF
- 4 - Net reserves per share of 10 MCF and an aggregate enterprise value of \$10 per share
- 5 - Net reserves per employee of 20 BCF at the end of our drilling program

2003 Metrics Review



Our successful \$6.32 million equity financing in November 2003 added some 7.45 million shares to our share capital account, bringing Rosetta's total outstanding shares to 43.2 million.

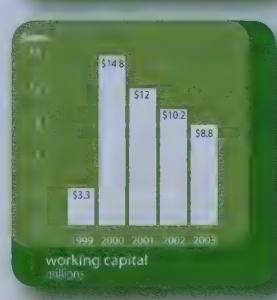
2003 saw Rosetta take a major write down in its asset value, given the Crossfield 9-22, Strachan 5-17 and Strachan 1-21 wells all being unsuccessful in their deeper, primary target zones. Our recently drilled Strachan 10-28 well is currently being evaluated for potential reserves.

Rosetta's metrics are designed to report on our business plan of exploration and monetization—and until such time as we have a major discovery, the results will continue to be predictable.

On page 11, we detailed the efficiency of our exploration process (total expenditures per MCF of mean prospect potential generated). It shows that these past four years has seen our exploration process produce big prospects for a cumulative cost of 1.5 cents per MCF.

A notional \$10,000 investment in Rosetta has become \$3,674. This is a net asset value measurement and assumes the investment was made when new management invested their funds in July 1999, at \$1.25 per share. This calculation is done on a pre-tax liquidation basis and includes only land, geophysics, proven reserves and working capital. A large portion of net asset value is working capital, which declines with investment. This does NOT reflect any potential value for Rosetta's significant prospects.

In the coming year, we're looking to expose shareholders to significant value creation at lower risk with the advent of our distinct exploration business units. We currently have eight drillable prospects in our inventory.



Management's Discussion and Analysis

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements for the fiscal years ended December 31, 2003 and 2002.

The date of this MD&A is April 19, 2004.

Forward-looking Statements

This disclosure includes statements about expected future events and/or financial results that are forward-looking in nature and subject to substantial risks and uncertainties. Rosetta cautions that actual performance will be affected by a number of factors, many of which are beyond its control.

2003 Results

Rosetta's focus during 2003 was centered upon the licensing and drilling of the Crossfield Swan Hills 9-22 test well (which subsequent to year end was proven unsuccessful), advancing its three New Play Type groups, and the building of its portfolio of prospects.

In building its portfolio of prospects, the Company completed the development of several new distinct exploration business units to provide shareholders with greater diversity. While Rosetta still devotes significant effort towards deep exploration, it has generated several shallower exploration initiatives with prospects that can be drilled faster, less expensively and in some cases, expose shareholders to upside potential that is comparable to or greater than the Company's deeper group of prospects. Rosetta unveiled all seven of its exploration business units in this year's annual report.

The Strachan 5-17 well (a test for the Devonian Swan Hills formation) and the Strachan 1-21 well (a test for dual objectives in the Cretaceous and Mississippian formations), both drilled in 2002, were unsuccessful in their primary target zones. Completion and tie-in of secondary zones on both wells were finished in 2003, yielding commercial but nominal reserves.

Further to the discussions pertaining to the potential for future impairment, as set forth both in the President's Message and MD&A portions of Rosetta's 2003 Second and Third Quarter Reports, Rosetta has taken a major write down (impairment) in its asset value. This is primarily attributable to the Crossfield 9-22, Strachan 5-17 and Strachan 1-21 wells all being unsuccessful in their deeper, primary target zones.

To continue to pursue the Company's projects, the Company spent a considerable amount of time in pursuing potential exploration drilling partners and raising of additional capital. Success in these areas was achieved by bringing in a partner for 50% of the Crossfield Swan Hills 9-22 test well and an equity issue in November 2003 for net proceeds of \$5.8 million.

Operations

Cash flow from operations in 2003 continued to remain in a negative position with production expenses, general and administrative and interest expense exceeding production and interest revenues.

Petroleum and natural gas revenues increased by 81% in comparison to last year. The Strachan 5-17 and 1-21 wells commenced production during the second half of 2003. The production from the Strachan 2-22 well, in conjunction with the two new wells, averaged 385 mcf/day as compared to an average of 359 mcf/day in 2002. The price for natural gas remained strong during the year, resulting in the Company receiving an average gas price of \$6.82 per mcf versus \$4.25 per mcf in 2002. The increase in both volumes and price contributed to the Company's overall revenue increase.

Operating expenses remained consistent with the prior year despite the marginal increase in volumes, which resulted in a decrease in operating expenses on a unit basis. General and administrative expense, net of the non-cash stock-based compensation expense, increased by only 3.6% from the previous year; the Company continues its policy of not capitalizing any of these expenditures.

Effective January 1, 2003, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants on accounting for stock-based compensation. As permitted by this new pronouncement, the Company prospectively adopted the fair-value method of accounting for stock options granted to employees and directors. Stock-based compensation is recorded as an expense in the consolidated statements of operations for all options granted on or after January 1, 2003, with a corresponding increase recorded as contributed surplus. Compensation expense for options granted during 2003 is based upon the estimated fair values at the time of the grant and the expense is recognized over the vesting period of the option. The Company recognized \$161,780 of compensation expense for options granted during 2003. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. The Company has incorporated an estimated forfeiture rate for stock options of 20 per cent. In the event that vested options expire without being exercised, previously recognized compensation expense associated with such stock options is not reversed. For options granted prior to January 1, 2003, the Company continues to disclose the pro forma loss impact of related stock-based compensation expense as permitted by the new accounting pronouncement.

Interest expense

The interest expense of \$78,436 was a result of the flow-through shares issued in 2002. The Company had renounced the expenditures to investors at the end of 2002 and incurred the remaining qualifying expenditures during 2003. The expenditures incur an interest amount payable to the federal government for balances unspent subsequent to the end of February in the year following the renouncement. The similar expense in 2002 was \$87,858. There will be a similar interest expense during 2004 as the Company renounced the qualifying expenditures to the investors at the end of 2003 from the flow-through shares issued in late 2003.

Management's Discussion and Analysis

Depletion, Depreciation and Asset Retirement Obligation

During the first three quarters, Rosetta had anticipated that reserves would have been assigned to the two low volume Strachan gas wells. At year end, the Company's independent reservoir engineers determined that only one of the wells would qualify for very minimal reserves pursuant to National Instrument 51-101. Therefore, the depletion charge for the fourth quarter resulted in a significant increase to \$2.2 million, almost three times the charge for the entire first three quarters of the year.

When the Company applied the ceiling test calculation at year end, the result was a write down of \$6.4 million. The ceiling test analyzed the carrying value of the Company's assets related to reserves, net of recorded future income taxes and the accumulated provision for future site restoration and abandonment costs and compared them to an estimate of future net revenues from the production of gross proven reserves. The end result leaves a net book value related to the Company's reserves of \$0.5 million, which will be depleted over the remaining life of the proven reserves on a unit of production basis.

In December 2002, the CICA issued Section 3110 "Asset Retirement Obligations." The section requires the recognition of the fair value of the retirement obligation for related long-term assets as a liability. Retirement costs equal to the retirement obligation are capitalized as part of the cost of the associated capital asset and amortized to expense through depletion over the life of the asset. In subsequent periods, the liability is adjusted for the passage of time and any revisions in the amount or timing of the underlying future cash flows. The change in the liability due to the passage of time is measured by applying an interest method of allocation to the opening liability and is recognized as an increase in the carrying value of the liability and an expense. The expense must be recorded as an operating item in the income statement, not as a component of interest expense. A change in the liability resulting from revisions to either the timing or the amount of the original estimate of undiscounted cash flows is recognized as an increase or decrease in the carrying amount of the liability, with an offsetting increase or decrease in the carrying amount of the associated asset. The Company made the decision to implement the early adoption of CICA Section 3110, which change resulted in a minor restatement of the 2002 financials, as described in Note 3(b) of the audited consolidated financial statements.

An independent report was prepared for the Company's undeveloped land values as at December 31, 2003. The market value as determined in the report was \$6.0 million, which, when compared to the carrying value for the undeveloped land, resulted in a write down of \$0.5 million.

The Company also conducted an in-depth analysis of its seismic assets, which involved an assessment of the ongoing viability for each of its major project areas. In addition, discussions took place with a seismic brokerage company to assess the market values for potential resale attributable to proprietary 2D and 3D seismic lines. The outcome of the analysis attributed an estimated value of \$4.2 million to these assets, resulting in a write down of \$0.6 million.

The ceiling test, land and seismic evaluations resulted in a total write down of \$7.5 million. The net book value remaining at December 31, 2003 for these assets is \$10.7 million, which will continue to be depleted in future years and assessed to market values.

Capital Expenditures

The Company expended \$6.3 million in 2003 (compared to \$5.5 million in 2002) primarily to test or otherwise advance its 29 active projects, new play type and technological initiatives, build stronger land positions around its most advanced ideas, and to bring production from the two Strachan wells on stream. The drilling of Crossfield 9-22 in late 2003 and the completion and tie-in of the two Strachan wells drilled in 2002 resulted in costs of \$4.0 million. Significant land purchases were also made in 2003, totaling \$1.0 million. Seismic and geophysics, totaling \$1.1 million, were incurred during the year to enhance the viability of future drillable prospects. Throughout the course of the year, the Company successfully disposed of certain land and seismic assets for total proceeds of \$1.1 million.

Income Taxes

The Company is able to utilize financing opportunities from flow-through equity as it currently has sufficient tax pools and is not currently generating taxable income. Approximate unutilized tax pools as at December 31, 2003 are as follows:

COGPE	\$ 5.3 million
CDE	\$ 0.6 million
CEE	\$ 5.6 million
UCC	<u>\$ 1.8 million</u>
	\$ 13.3 million

In addition, there are approximately \$6.5 million of non-capital losses available. The expiry of these losses is detailed in Note 10 to the audited consolidated financial statements.

Based upon its capitalization, the Company paid \$36,219 of Large Corporations Tax during the year.

Quarterly Information

Historical quarterly information, prepared by the Company and in accordance with GAAP, is as follows:

(\$ thousands, except for per share amounts)	Three months ended Fiscal 2003			
	December 31	September 30	June 30	March 31
Net revenues <i>(Revenues less royalties and operating expenses)</i>	112.9	173.6	205.8	196.9
Net loss	(9,743.1)	(739.0)	(685.4)	(804.5)
Net loss per share	(0.27)	(0.02)	(0.02)	(0.02)
Net capital expenditures	2,734.9	522.4	1,030.2	985.4

Management's Discussion and Analysis

(\$ thousands, except for per share amounts)	Three months ended Fiscal 2002			
	December 31	September 30	June 30	March 31
Net revenues <i>(Revenues less royalties and operating expenses)</i>	168.7	42.5	34.6	39.2
Net loss	(1,049.1)	(856.3)	(871.8)	(781.2)
Net loss per share	(0.03)	(0.03)	(0.03)	(0.03)
Net capital expenditures	2,462.5	1,433.7	541.6	870.2

Liquidity and Capital Resources

The year 2004 commenced with a working capital balance of \$8.8 million. Based upon the Company's existing production, essentially from one Strachan well, net revenue is estimated to be \$0.7 million for 2004. With the Company's requirement to spend \$4.5 million in 2004 to satisfy the renouncement of the flow-through expenditures in 2003, overhead commitments of \$2.7 million and limited net revenue, the Company's available cash may be significantly depleted by December 31, 2004. Additional capital resources will be required to develop and drill the Company's portfolio of prospects. Alternatives are available to generate additional cash flow, such as disposing of undeveloped land and seismic data, additional equity infusions, plus potential cash flow that could be generated from the \$4.5 million of expenditures to be incurred during the year. While the Company will continue to vigorously pursue financing, joint venture and partnering alternatives, it should be recognized that its current capital constraints introduce additional risk for investors.

Contractual Obligations

Other than annual rental commitments for office premises as described in Note 11, the Company does not have future contractual obligations.

Share Capital

As at December 31, 2003, the Company's issued share capital consisted of 43,190,007 common shares (2002 – 35,731,202). During the year ended 2003, the Company issued 400,000 common shares and 7,058,805 flow-through common shares for net proceeds of \$5,849,157. The gross flow-through proceeds of \$5,999,984 were renounced to investors at the end of 2003 and the Company must incur the qualifying expenditures during 2004.

During the year ended 2003, 1,245,000 options were granted to employees and directors at an exercise price of \$1.00 per share. These options vest one-third immediately and one-third on the first and second anniversary dates.

Related Party Transactions

The Company has entered into transactions with certain employees whereby it has either purchased or sold minor properties. These transactions were recorded at their agreed upon exchange amounts.

The Company has paid approximately a cumulative total of \$788,000 (2002 - \$580,000), to a private corporation of which two directors of the Company are significant shareholders, in return for exclusive use of the proprietary technology being developed. This amount is included in the seismic category in property and equipment. The Company feels that its use of this new approach to seismic processing and interpretation will further enhance its plays.

Critical Accounting Estimates

The MD&A is based upon the Company's audited consolidated financial statements, which have been prepared in accordance with GAAP. The application of GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The Company believes that the estimates and assumptions used are reasonable under the circumstances. Actual results could differ from the following estimates used:

Impairment of Property and Equipment

The Company's reserve information is based upon estimates prepared by its independent petroleum consultants. The present value of future net revenues should not be assumed to be the current market value of the Company's estimated reserves as actual prices, costs and reserves may be materially higher or lower. The estimate of reserves impacts both depletion and ceiling test calculations.

The Company conducted an in-depth analysis of its seismic assets, which involved an assessment of the ongoing viability for each of its major project areas. This measurement is an attempt to ensure that the carrying value is not in excess of fair value. The outcome of the analysis attributed an estimated value of \$4.2 million to these assets as at December 31, 2003, resulting in a write down of \$0.6 million. There are no assurances that impairment provisions will not be required in the future.

Stock-Based Compensation Expense

Pursuant to the fair-value method of accounting for stock options granted to employees and directors, a stock-based compensation expense of \$161,780 was recognized for options granted during 2003. The compensation expense is based upon a number of estimates, which may vary over time.

Management's Discussion and Analysis

Recent Financial Reporting Developments

Impairment of Long-Lived Assets

In September 2002, the CICA approved Section 3063, "Impairment of Long-Lived Assets" which established standards for the recognition, measurement and disclosure of the impairment of long-lived assets, and applies to long-lived assets held for use. An impairment loss is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The new guideline limits the carrying value of oil and natural gas properties to their fair value. The fair value is equal to estimated future cash flows from proved and risked probable reserves using future price forecasts and costs discounted at a risk-free rate. The Company will be adopting this impairment test effective with the first quarter of 2004 and does not anticipate any additional impairment in excess of that recorded for 2003.

Asset Retirement Obligation

The CICA recently issued Handbook Section 3110 - Asset Retirement Obligation which addressed legal obligations associated with the retirement of long-lived assets. The Company made the decision to implement the early adoption of CICA Section 3110, which change resulted in a minor restatement of the 2002 financials, as described in Note 3(b) of the audited consolidated financial statements.

Stock-Based Compensation

The CICA issued Handbook Section 3870 which requires fair value accounting for all stock-based compensation transactions. As permitted by this pronouncement, the Company prospectively adopted the fair-value method of accounting for stock options granted to employees and directors as described in Note 3(a) of the audited consolidated financial statements.

The Year Ahead

Rosetta continues in its efforts to discover one or more 100 BCF targets in the Western Canadian Sedimentary Basin. In the absence of achieving significant production levels however, Rosetta's stock price will likely continue to rise and fall with each drilling test. To meet this challenge and expose shareholders to a more diverse portfolio of high impact prospects, the Company has introduced several shallower, lower drilling cost exploration initiatives and is planning to test one or more shallower initiatives in 2004. Rosetta continues to be a true wildcat explorer, in search of prolific finds.

Auditor's Report to the Shareholders

We have audited the consolidated balance sheets of Rosetta Exploration Inc. as at December 31, 2003 and 2002 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

*Calgary, Alberta
March 29, 2004*

Chartered Accountants

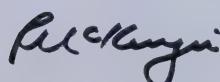
Consolidated Balance Sheets

December 31

		2003	2002
Assets			Restated - note 3
Current			
Cash and cash equivalents	<i>note 4</i>	\$ 7,100,336	\$ 8,738,991
Short-term investments	<i>note 5</i>	2,500,000	4,000,000
Accounts receivable	<i>note 12</i>	1,995,043	2,423,245
Employee loans	<i>note 6</i>	6,375	16,000
Prepaid expenses and deposits		<u>131,812</u>	<u>90,648</u>
		11,733,566	15,268,884
Property & equipment, net	<i>notes 7, 14</i>	<u>10,946,528</u>	<u>15,496,754</u>
		\$ 22,680,094	\$ 30,765,638
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 2,924,502	\$ 5,094,405
Asset retirement obligations	<i>notes 3, 8</i>	<u>296,231</u>	<u>262,772</u>
		<u>3,220,733</u>	<u>5,357,177</u>
Commitments	<i>note 11</i>		
Shareholders' Equity			
Share capital	<i>note 9</i>	44,355,262	38,506,105
Contributed surplus	<i>note 9</i>	192,368	18,688
Deficit		<u>(25,088,269)</u>	<u>(13,116,332)</u>
		<u>19,459,361</u>	<u>25,408,461</u>
		\$ 22,680,094	\$ 30,765,638

See accompanying notes.

On behalf of the Board,

Robert McKenzie,
DirectorMurph Hannon,
Director

Consolidated Statements of Operations and Deficit

Years Ended December 31

	2003	2002
Revenue		Restated - note 3
Petroleum and natural gas sales	\$ 1,036,075	\$ 572,327
Royalties, net of ARTC	<u>(78,546)</u>	<u>(23,345)</u>
	957,529	548,982
Interest income	<u>221,557</u>	<u>232,451</u>
	1,179,086	781,433
Expenses		
Production	268,529	263,981
General and administrative	2,917,929	2,670,167
Interest	78,436	87,858
Depletion and depreciation	<i>note 7</i>	9,850,180
	<u>13,114,804</u>	<u>1,274,815</u>
Loss for the year before income taxes	<u>(11,935,718)</u>	<u>(3,515,388)</u>
Income taxes	<i>note 10</i>	
Capital taxes	<u>36,219</u>	<u>43,000</u>
Net loss for the year	<u>(11,971,937)</u>	<u>(3,558,388)</u>
Deficit, beginning of year	<u>(13,116,332)</u>	<u>(9,557,944)</u>
Deficit, end of year	<u>\$ (25,088,269)</u>	<u>\$ (13,116,332)</u>
Net loss per share - basic and diluted	<i>note 9</i>	\$ <u>(0.33)</u>
		<u>\$ (0.12)</u>

See accompanying notes.

Consolidated Statements of Cash Flows

Years Ended December 31

	2003	2002
Operating		Restated - note 3
Net loss for the year	\$ (11,971,937)	\$ (3,558,388)
Non-cash administrative	173,680	18,688
Non-cash production expenses	6,434	4,933
Depletion and depreciation	9,850,180	1,274,815
	<u>(1,941,643)</u>	<u>(2,259,952)</u>
Changes in non-cash working capital	<i>note 13</i>	186,861
	<u>(1,754,782)</u>	<u>(647,370)</u>
	<u>(1,754,782)</u>	<u>(2,907,322)</u>
Financing		
Issue of common shares, net of issue costs	5,849,157	5,956,217
Redemption (purchase) of short-term investment	1,500,000	(4,000,000)
Employee loans for purchase of shares	(6,375)	(16,000)
Employee loans repaid	16,000	28,250
	<u>7,358,782</u>	<u>1,968,467</u>
Investing		
Expenditures on undeveloped land	(973,525)	(653,344)
Expenditures on seismic	(1,114,318)	(1,549,131)
Expenditures on major development project	(4,004,704)	(2,811,076)
Expenditures on developed properties	(168,313)	(307,767)
Expenditures on equipment	(12,636)	(127,964)
Expenditures on office equipment	(63,865)	(15,281)
Proceeds on promissory note	-	15,519
Proceeds on disposal of property and equipment	1,064,432	141,000
Changes in non-cash working capital	<i>note 13</i>	(1,969,726)
	<u>(7,242,655)</u>	<u>2,797,652</u>
	<u>(7,242,655)</u>	<u>(2,510,392)</u>
Decrease in cash and cash equivalents	(1,638,655)	(3,449,247)
Cash and cash equivalents, beginning of year	<u>8,738,991</u>	<u>12,188,238</u>
Cash and cash equivalents, end of year	\$ 7,100,336	\$ 8,738,991

See accompanying notes.

Notes to the Consolidated Financial Statements

December 31, 2003

1. Nature of operations

Rosetta Exploration Inc. (the "Company") is engaged in the exploration for and production of petroleum and natural gas predominately in Western Canada. The Company was incorporated under the laws of the Province of Alberta and is listed on the TSX Venture Exchange.

2. Summary of significant accounting policies

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include the accounts of the Company and its wholly owned subsidiary, Villam Resources Co., a Montana corporation. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Property and equipment

i) Capitalized costs

The Company follows the full cost method of accounting for its petroleum and natural gas operations. Under this method, all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized on a country-by-country basis, being Canada and the United States. Costs include lease acquisition costs, geological and geophysical expenses and costs of drilling both productive and non-productive wells and equipment costs. Proceeds from the sale of properties are applied against capitalized costs and gains or losses are not recognized unless such sale would alter the depletion rate by more than 20%.

ii) Depletion and depreciation

Depletion and depreciation of undeveloped land, seismic and producing assets, net of estimated salvage or residual value, is provided using the unit-of-production method based upon estimated proven petroleum and natural gas reserves, before royalties, as determined by independent engineers. In determining its depletion base, the Company includes the cost of undeveloped land at the rate of 20% per year. The cost of a major development project is excluded until an economic evaluation has been completed. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Office equipment is depreciated on a declining balance basis over its estimated useful life at rates varying from 20% to 50%.

iii) Impairment test

In applying the full cost method, the Company calculates a ceiling test whereby the carrying value of its producing assets, net of recorded future income taxes and the accumulated provision for asset retirement obligation, is compared annually to an estimate of future net revenues from

Notes to the Consolidated Financial Statements

December 31, 2003

the production of gross proven reserves. The cost of a major development project is excluded until an economic evaluation has been completed. Net revenues are estimated using prices and costs in effect at year end without escalating or discounting, less estimated future general and administrative expenses, financing costs, asset retirement obligation and income taxes. Should this comparison indicate an excess in the carrying value, the excess is charged against operations in the period as additional depletion and depreciation.

Undeveloped land and seismic are excluded from the ceiling test. For undeveloped land, an independent land evaluation is compared to the Company's net book value. The majority of the seismic is non-proprietary and therefore, the carrying value of the seismic is reviewed on a prospect by prospect basis and is written off when it is determined the prospects are impaired.

b) Measurement uncertainty

The amounts recorded for depletion and depreciation of property and equipment and asset retirement obligations and the ceiling test are based upon estimates of gross proven reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact upon the consolidated financial statements of changes in such estimates in future periods could be material.

c) Asset retirement obligations

The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value is determined through a review of engineering studies, industry guidelines, and management's estimate on a site by site basis. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statement of operations. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized using the unit of production method based upon estimated gross proven reserves as determined by independent engineers.

d) Joint operations

Substantially all of the exploration and production activities of the Company are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

e) Flow-through shares

A portion of the Company's exploration activities is financed through proceeds received from the issue of flow-through shares. Under the terms of the flow-through share issues, the tax attributes of the related expenditures are renounced to the share subscribers. To recognize the foregone tax benefits to the Company, the carrying value of the shares issued is reduced by the tax effect of the benefits renounced to subscribers. The tax effect of the renunciation is recorded when the corresponding exploration expenditures are incurred.

f) Future income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based upon differences between financial reporting and income tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantively enacted.

g) Revenue recognition

Petroleum and natural gas sales are recognized in earnings when reserves are produced and delivered to the purchaser. Interest income is recognized on a monthly basis as earned.

h) Per share amounts

The Company utilizes the treasury stock method in the determination of diluted per-share amounts. Under this method, the diluted weighted average number of shares is calculated assuming that proceeds arising from the exercise of in-the-money options and other dilutive instruments are used to purchase, for cancellation, common shares of the Company at their average market price for the period.

i) Stock options

Under the Company's stock option plan, options to purchase common shares are granted to directors, officers, employees and consultants at current market prices. Options granted by the Company in 2003 are accounted for in accordance with the fair-value method of accounting for stock-based compensation, and as such the cost of the option is charged to earnings with an offsetting amount recorded to contributed surplus, based on an estimate of the fair value using a Black-Scholes option-pricing model. No compensation expense has been recorded on options issued to directors, officers and employees in 2002 (see Note 9).

3. Change in accounting policy

a) Stock-based compensation

Effective January 1, 2003, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants on accounting for stock-based compensation. As permitted by this new pronouncement, the Company prospectively adopted the fair-value method of accounting for stock options granted to employees and directors. Stock-based compensation is recorded in the consolidated statements of operations for all options granted on or after January 1, 2003, with a corresponding increase recorded as contributed surplus. Compensation expense for options granted during 2003 is based upon the estimated fair values at the time of the grant and the expense is recognized over the vesting period of the option. The Company recognized \$161,780 of compensation expense for options granted during 2003 (see Note 9). Upon the exercise of the stock options, consideration paid together with the amount

Notes to the Consolidated Financial Statements

December 31, 2003

previously recognized in contributed surplus is recorded as an increase in share capital. The Company has incorporated an estimated forfeiture rate for stock options of 20 per cent. In the event that vested options expire without being exercised, previously recognized compensation expense associated with such stock options is not reversed. For options granted prior to January 1, 2003, the Company continues to disclose the pro forma loss impact of related stock-based compensation expense as permitted by the new accounting pronouncement (see Note 9).

b) Asset retirement obligations

Effective January 1, 2003, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants on accounting for asset retirement obligations for related long-term assets as a liability. Retirement costs equal to the retirement obligation are capitalized as part of the cost of property and equipment and amortized to expense through depletion over the life of the asset. The change in the liability due to the passage of time is measured by applying an interest method of allocation to the opening liability and is recognized as an increase in the carrying value of the liability and an expense. The expense is recorded as a production expense in the statement of operations, not as a component of interest expense. A change in the liability resulting from revisions to either the timing or the amount of the original estimate of undiscounted cash flows is recognized as an increase or decrease in the carrying amount of the liability, with an offsetting increase or decrease in the carrying amount of the associated asset. This standard was adopted retroactively effective January 1, 2003, and prior period comparative balances were restated. The adoption of this standard had the following effects on the Company's consolidated financial statements:

Consolidated balance sheet	January 1, 2002
Increase in asset retirement obligation	\$ 106,226
Increase in deficit	\$ 106,226

4. Cash and cash equivalents

	2003	2002
Cash in bank	\$ 100,336	\$ 1,774,841
Term deposits	<u>7,000,000</u>	<u>6,964,150</u>
	<u>\$ 7,100,336</u>	<u>\$ 8,738,991</u>

The term deposits outstanding as at December 31, 2003 and 2002 have terms of less than 90 days and bear interest at an average rate of 2.6% (2002 - 2.5%).

5. Short-term investments

One of the short-term investments of \$1,000,000 (2002 - \$4,000,000) bears interest at the bank's prime rate less 2.5% and matures in November 2004. At December 31, 2003, the interest rate was 2.5% (2002 - 2.5%). The other short-term investment of \$1,500,000 (2002 - nil) has a fixed interest rate of 3.0% and matures in June 2004.

6. Employee loans

Pursuant to the Company's Employee Share Purchase Plan (ESPP), an employee has the opportunity to contribute up to 10% of their annual base salary into the ESPP and the Company will match the employee's contribution. The employee's portion can be in the form of a non-interest bearing loan, which is required to be repaid within a one year period.

7. Property and equipment

	December 31, 2003				
	Cost	Accumulated depletion and depreciation	Accumulated impairment	Net	
Canadian cost centre					
Land	\$ 8,143,278	\$ 1,582,400	\$ 500,000	\$ 6,060,878	
Seismic	7,324,593	1,446,697	1,708,300	4,169,596	
Drilling	13,045,812	1,971,965	10,695,085	378,762	
Equipment	1,179,510	586,249	481,839	111,422	
United States cost centre	932,912	344,914	587,998	-	
Office equipment	644,225	418,355	-	225,870	
	<u>\$ 31,270,330</u>	<u>\$ 6,350,580</u>	<u>\$ 13,973,222</u>	<u>\$ 10,946,528</u>	

	December 31, 2002				
	Cost	Accumulated depletion and depreciation	Accumulated impairment	Net	
Canadian cost centre					
Land	\$ 7,937,195	\$ 846,000	\$ -	\$ 7,091,195	
Seismic	6,507,265	727,697	1,108,300	4,671,268	
Drilling	9,359,604	1,248,265	4,753,424	3,357,915	
Equipment	675,538	521,449	-	154,089	
United States cost centre	932,912	344,914	587,998	-	
Office equipment	557,862	335,575	-	222,287	
	<u>\$ 25,970,376</u>	<u>\$ 4,023,900</u>	<u>\$ 6,449,722</u>	<u>\$ 15,496,754</u>	

As at December 31, 2003, undeveloped land includes \$1,813,900 (2002 - \$2,378,200), which has been excluded from the depletion calculation.

The Company did not capitalize any general and administrative costs during 2003 and 2002.

In accordance with stated accounting policies, the Company has performed a ceiling test using commodity prices as at the measurement date of December 31, 2003. Using December 31, 2003 commodity prices of \$6.34/mcf for natural gas and \$32.05/bbl for natural gas liquids, resulted in a ceiling test impairment of \$6,423,500.

Notes to the Consolidated Financial Statements

December 31, 2003

At December 31, 2003, the Company also reduced the carrying value of its seismic assets by \$600,000 (2002 - \$200,000) and the carrying value of its undeveloped land assets by \$500,000 (2002 - nil).

The total impairment amount of \$7,523,500 has been included in depletion and depreciation.

8. Asset retirement obligation

The following table presents the reconciliation of the carrying amount of the obligation associated with the retirement of the property and equipment:

	2003	2002
Asset retirement obligation, beginning of year	\$ 262,772	\$ 209,934
Liabilities incurred	28,184	47,905
Accretion expense	6,434	4,933
Liabilities settled	<u>(1,159)</u>	-
Asset retirement obligation, end of year	<u>\$ 296,231</u>	<u>\$ 262,772</u>

The total undiscounted amount of estimated cash flows required to settle the obligation is \$331,600 (2002 - \$294,105), which has been discounted using a credit-adjusted risk free rate of 2.63%.

9. Share capital

a) Authorized

Unlimited number of Class A and B common shares, no par value.

Unlimited number of Class A preferred shares, issuable in series, no par value.

b) Issued

Class A common shares	Number of Shares	
Balance – December 31, 2001	29,299,675	\$ 32,549,888
Private placement (i)	1,635,527	1,553,751
Flow-through Class A common shares (ii)(v)	4,796,000	4,796,000
Share issue costs	<u>-</u>	<u>(393,534)</u>
Balance – December 31, 2002	35,731,202	\$ 38,506,105
Private placement (iii)	400,000	320,000
Flow-through Class A common shares (iv)(vi)	7,058,805	5,999,984
Share issue costs	<u>-</u>	<u>(470,827)</u>
Balance – December 31, 2003	43,190,007	\$ 44,355,262

Contributed surplus

Balance – December 31, 2001	\$ -
Stock-based compensation expense	18,688
Balance – December 31, 2002	18,688
Stock-based compensation expense	173,680
Balance – December 31, 2003	\$ 192,368

- i) During 2002, 1,635,527 Class A common shares were issued at \$0.95 per share for gross proceeds of \$1,553,751.
- ii) During 2002, 4,796,000 flow-through Class A common shares were issued at \$1.00 per share for gross proceeds of \$4,796,000.
- iii) During 2003, 400,000 Class A common shares were issued at \$0.80 per share for gross proceeds of \$320,000.
- iv) During 2003, 7,058,805 flow-through Class A common shares were issued at \$0.85 per share for gross proceeds of \$5,999,984.
- v) The Company records the tax value of qualifying expenditures renounced under flow-through agreements as a cost of capital when the qualifying expenditures are incurred. Effective December 31, 2002 the Company renounced \$4,796,000 in respect of flow-through shares issued in 2002. Of the amount renounced in 2002, \$993,500 was incurred to December 31, 2002 and the remaining qualifying expenditures of \$3,802,500 were incurred in 2003. The tax effect of these qualifying expenditures has been reduced by previously unrecognized tax assets of \$2,324,500.
- vi) The Company renounced \$5,999,984 in respect of flow-through shares issued in 2003. Of the amount renounced in 2003, \$1,439,400 was incurred to December 31, 2003 and the remaining qualifying expenditures will be incurred in 2004. The tax effect of these qualifying expenditures has been reduced by previously unrecognized tax assets of \$586,600.

c) Options outstanding

The Company has a stock option plan, administered by the Board of Directors, in which up to 10% of the issued and outstanding common shares are reserved for issuance. Under the plan, the options that have been granted prior to 2003, expire on the earlier of September 29, 2005 or 30 days (six months for those granted in 1999) from the date from which the optionee ceases to be a director, officer, employee or consultant of the Company. For the options granted during 2003, they expire on the earlier of December 15, 2008 or 30 days from the date from which the optionee ceases to be a director, officer, employee or consultant of the Company.

Notes to the Consolidated Financial Statements

December 31, 2003

Shares have been reserved for the following outstanding stock options:

	Year ended December 31, 2003		Year ended December 31, 2002	
	Shares	Weighted-Average Exercise Price \$	Shares	Weighted-Average Exercise Price \$
Opening	2,622,800	1.36	2,158,800	1.44
Cancelled	(100,000)	1.50	(196,000)	1.45
Granted	1,245,000	1.00	660,000	1.14
Closing	3,767,800	1.23	2,622,800	1.36

The following summarizes information about stock options outstanding as at December 31, 2003:

Exercise Price \$	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price \$	Number Exercisable	Weighted Average Exercise Price \$
1.00	1,825,000	3.9	1.00	961,661	1.00
1.25	480,000	1.7	1.25	480,000	1.25
1.50	1,462,800	1.7	1.50	1,462,798	1.50
	3,767,800	2.8	1.23	2,904,459	1.29

As discussed in Note 3, the Company continues to disclose the pro forma effect of stock-based compensation on net loss and net loss per basic and diluted common share. For purposes of these pro forma disclosures, the Company calculated the value of stock-based compensation using a Black-Scholes option-pricing model to estimate the fair value of stock options at the date of grant. The estimated fair-value of options is amortized to expense over the options' vesting periods. For stock options granted in 2002, the Company's net loss would be increased by \$152,000 for the year ended December 31, 2003 and by \$181,000 for the year ended December 31, 2002. There is no change to the basic and diluted net loss per share figures for the years 2003 and 2002.

The assumptions made for the options granted in 2003 include a volatility factor of expected market price of 103%, a weighted average risk-free interest rate of 2.6%, no dividend yield and a weighted average expected life of options of five years.

The assumptions made for the options granted in 2002 include a volatility factor of expected market price of 111% to 122%, a weighted average risk-free interest rate of 6%, no dividend yield and a weighted average expected life of options of 3.3 years.

During 2002, the Company granted options to a non-employee in recognition of consulting services rendered. The Company recorded \$18,688 in compensation expense in connection with this transaction. In 2003 no options were granted to non-employees.

d) Per share amounts

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year of 36,799,217 (2002 – 30,268,809). In computing diluted per share amounts, all of the Company's 3,767,800 (2002 – 2,622,800) outstanding options were excluded from the calculation of the weighted average number of common shares outstanding, as they were considered to be anti-dilutive.

10. Income taxes

The Company's computation of income tax expense is as follows:

	2003	2002
Expected income tax recovery at 40.75% (2002 – 42.62%)	\$ (4,863,805)	\$ (1,498,273)
Resource allowance	199,147	185,791
Other	10,702	21,045
Capital taxes	36,219	43,000
Unrecognized tax benefits	<u>4,653,956</u>	<u>1,291,437</u>
Income tax	<u>\$ 36,219</u>	<u>\$ 43,000</u>

Components of future income taxes

The Company has not recognized net future tax assets as reflected by the valuation adjustment reported below. The net future tax asset (liability) is comprised of:

	2003	2002
Non-capital loss carryforwards	\$ 2,291,223	\$ 2,440,820
Asset retirement obligations	102,555	110,680
Share issue costs	275,035	275,767
Net book value of assets in excess of tax basis	-	(1,090,696)
Tax basis of assets in excess of net book value	906,342	-
Valuation adjustment	<u>(3,575,155)</u>	<u>(1,736,571)</u>
	<u>\$ -</u>	<u>\$ -</u>

As at December 31, 2003, the Company has approximately \$13,300,000 in tax pools and \$6,500,000 in non-capital losses available for deduction against future taxable income.

Non-capital losses expire as follows:

2005	\$ 700,000
2006	1,500,000
2007	600,000
2008	1,300,000
2009	1,200,000
2010	<u>1,200,000</u>
	<u>\$ 6,500,000</u>

Notes to the Consolidated Financial Statements

December 31, 2003

11. Commitments

The Company has the following annual rental commitments on office premises pursuant to a lease, which expires on October 31, 2008:

2004	\$ 127,302
2005	128,288
2006	133,223
2007	133,223
2008	<u>111,019</u>
	\$ <u>633,055</u>

The Company has the right of early termination on the lease on October 31, 2005 by paying a penalty of \$85,000 or on October 31, 2006 by paying a penalty of \$60,000.

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers.

12. Financial instruments

a) Fair values of financial assets and liabilities

Financial instruments of the Company consist mainly of cash and cash equivalents, short-term investments, accounts receivable, employees' loans, and accounts payable. As at December 31, 2003 and 2002 there are no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values. The Company has not entered into any hedging contracts.

b) Credit Risk

The majority of the Company's accounts receivable are in respect of oil and natural gas operations. The Company generally extends unsecured credit to these customers, and therefore, the collection of accounts receivables may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Management believes the risk is mitigated by the size and reputation of the companies to which they extend credit. The Company has not experienced any material credit loss in the collection of receivables in the past.

13. Change in non-cash working capital

	2003	2002
Accounts receivable	\$ 428,202	\$ (2,190,245)
Prepaid expenses and deposits	(41,164)	(4,058)
Accounts payable and accrued liabilities	<u>(2,169,903)</u>	<u>4,344,585</u>
	<u>\$ (1,782,865)</u>	<u>\$ 2,150,282</u>

The change in non-cash working capital has been allocated to the following activities:

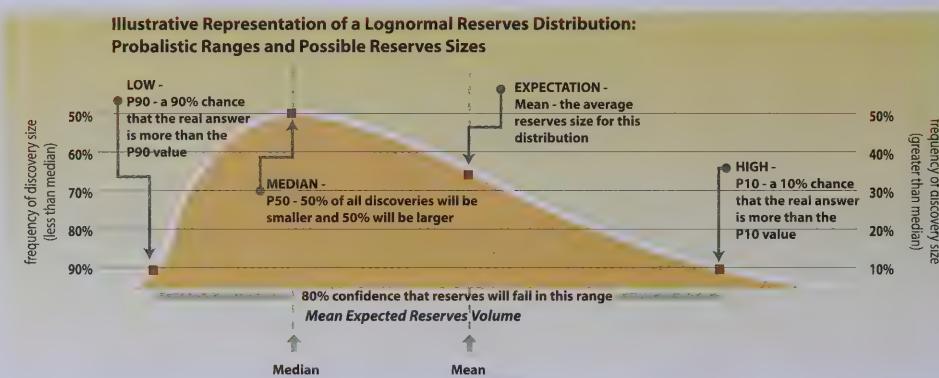
	2003	2002
Operating	\$ 186,861	\$ (647,370)
Investing	\$ (1,969,726)	\$ 2,797,652

14. Related parties

- a) The Company paid approximately \$208,000 (2002 - \$80,000) during the year for a cumulative total of \$788,000 (2002 - \$580,000), to a private corporation of which two directors of the Company are significant shareholders, in return for exclusive use of the proprietary technology being developed, for a minimum of two years. This amount is included in the seismic category in property and equipment.
- b) In 2003, the Company purchased an undeveloped property from one of its employees for cash consideration of \$30,000. In 2002, the Company purchased an interest in a royalty from the same employee for cash consideration of \$44,000 and sold to the employee a working interest in the same leases for cash consideration of \$48,000.
- c) In 2002, the Company purchased an undeveloped property from one of its officers for cash consideration of \$100,000. The property was valued pursuant to an independent evaluation.
- d) In 2002, the Company farmed out to a corporation, under normal industry standards, a working interest in one of its wells that was being drilled. An officer of the Company was one of the debenture holders who provided cash to the corporation that farmed-in on the well.

All of these transactions have been recorded at their exchange amounts.

Definitions



COS - (Chance of Success) - Our estimate of the chance of a successful drilling result for a particular Prospect or the combined chance of success for a drilling program. It is based upon our geoscientists' determination of hydrocarbon charge, reservoir rock, trap, etc. For each Prospect, we estimate the COS as being the likelihood or chance of a discovery. The potential reserves range if we have a discovery considers both deterministic and probabilistic evaluations.

Deterministic Reserve Estimates - When calculating reserves ranges for a Prospect, our geoscientists use a deterministic approach estimating ranges for parameters such as areal extent, net pay, porosity, hydrocarbon saturation, etc. This results in a range of "Low," "Expectation" and "High" for potential reserves for a Prospect. We then balance this with a probabilistic review of potential reserves.

P-value - Estimating with Probabilistic Ranges - The p-value for a Prospect, Lead or Play, as used in this document, is the likelihood of a successful discovery being greater than or equal to the value given. In our parlance we often quote a "P-50" statistical significance level. This means that if the event is successful, then we would expect to achieve the anticipated result, or greater, 50% of the time. Alternatively, a "P-10" statistical significance level means that if the event is successful, then we would expect to achieve the anticipated result, or greater, 10% of the time, and for a "P-90" statistical significance level, we would expect that reserves value, or greater, 90% of the time. Stated differently, for a particular Prospect, we would expect a

successful drilling result to discover the P-50 reserves value, 5 times out of ten and that we have an 80% confidence level of a successful result discovering between the P-10 and the P-90 reserves values. Statistically, the best single representation of a lognormal distribution is the mean, or average. These ranges are particularly important for a portfolio program of independent Prospects such as Rosetta's. Given a sufficiently large program and valid assumptions for each Prospect, it is possible to estimate the chance of SOME success over the course of the program and what the range of expected outcomes might be.

Rosetta Satellite - an independent geoscientist who has worked a number of years on developing a new large exploration idea and wants the support of Rosetta's approach, values and resources.

Science & Technology - the licensing, acquisition and/or development of science and technology (not generally accessible to others) which increases our chance of exploration success and/or decreases our capital expenditures (finding costs).

New Play Type - A geological concept that does not conform with the conventional interpretation of the geology of the WCSB but which, if proven true, could lead to discoveries of greater than one TCF.

"Conventional" Prospecting / Geology - Conventional Prospecting uses well established or mainstream geologic models, often with an innovative approach that could unlock a large discovery for Rosetta.

Abbreviations and Equivalents

Abbreviations -

BCF - billion cubic feet

BCFE - billion cubic feet equivalent

BOE - barrel of oil equivalent

MCF - thousand cubic feet

MCFE - thousand cubic feet equivalent

TCF - trillion cubic feet

AAPG - American Association of Petroleum Geologists

APEGGA - Association of Professional Engineers, Geologists and Geophysicists of Alberta

CIM - Canadian Institute of Mining

CSEG - Canadian Society of Exploration Geophysicists

CSPG - Canadian Society of Petroleum Geologists

EAGE - European Association of Geoscientists & Engineers

ERCB - Energy Resources Conservation Board

GSC - Geological Survey of Canada

PESGB - Professional Exploration Society of Great Britain

SEG - Society of Exploration Geophysicists

SPE - Society of Petroleum Engineers

Equivalents -

1 barrel of oil = 6 mcf of gas

Corporate Information

Officers

Jim Malcolm
Glenn Gradeen
Ross Clark
Robyn Lore
Mike Heule
Greg Kondro
Bob Malcolm, Q.C.

Board of Directors

Jim Malcolm
Alfred Balm
Kevin Brown
Murph Hannon
Robert McKenzie
Michael Pfeiffer
Greg Royer
Jeff Smith
(not standing for re-election)

Exploration Advisory Board

Dr. Bill Ayrton
Nor Hannon Jr.
Ralph Hughes
Ed McMaster
Hugh Reid
Allan Shepard
Dr. Easton Wren

Committees

Audit Committee

The Audit Committee reviews and recommends approval of the Company's financial statements to the Board of Directors in addition to ensuring that appropriate internal controls over accounting and financial reporting systems are met. Members of this committee are: Kevin Brown, Murph Hannon and Bob McKenzie.

Compensation Committee

The Compensation Committee guides the salary level of directors, officers and employees, awards stock options to personnel and reviews the general competitiveness of the Company's compensation and benefits plan. Members of this committee are: Kevin Brown and Greg Royer.

Governance Committee

The Governance Committee primarily oversees corporate disclosure practices, securities trading practices and an effective system of accountability. Members of this committee are: Jeff Smith and Greg Royer.

Reserves Committee

In 2003, a Reserves Committee was formed. Its primary mandate is to review the qualifications of and process used by the Company's independent engineering firm in preparing the annual reserves evaluation. Members of this committee are: Kevin Brown, Murph Hannon and Jeff Smith.

Shareholder Information

Stock Exchange Listing
TSX Venture Exchange
Trading Symbol: RSA

Registrar and Transfer Agent

CIBC Mellon
Calgary, Alberta

Investor Relations

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Communications Team Leader
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Bankers

Royal Bank of Canada
Calgary, Alberta

Auditors

Ernst & Young LLP
Calgary, Alberta

Legal Counsel

Macleod Dixon LLP
Calgary, Alberta

Reserves Consultants

Reliance Engineering Group
Calgary, Alberta

Annual and Special Meeting

Thursday, June 17, 2004 at 10:00 a.m. in the Marquis Room of the Fairmont Palliser Hotel, 133 - 9th Ave S.W., Calgary, Alberta.

Forward Looking Statements

This annual report includes statements about expected future events and/or financial results that are forward-looking in nature and subject to substantial risks and uncertainties. Rosetta cautions that actual performance will be affected by a number of factors, many of which are beyond its control. It should also be noted that additional capital resources over and above current working capital will be required to develop and drill the Company's portfolio of prospects. Alternatives are available to generate additional cash flow, such as disposing of undeveloped land and seismic data, additional equity infusions, plus potential new cash flow that could be generated from various opportunities. While the Company will continue to vigorously pursue financing, joint venture and partnering alternatives, it should be recognized that its current capital constraints introduce additional risk for investors. Owning and/or controlling the land for the projects outlined in this report is vital to successful implementation of Rosetta's plans. There is a risk that Rosetta will be unable to purchase or control these vitally necessary lands. The Company's future exploration and development success cannot be predicted with certainty and crude oil and natural gas prices may change significantly in the future. Rosetta's ability to meet its primary objective of maximizing shareholder wealth is influenced by a number of factors, including the Company's ability to find oil and gas reserves economically and produce or monetize them efficiently. The oil and gas industry involves a wide variety of business risks which impact all participants and their financial viability. These risks include, but are not limited to: risks associated with finding, acquiring, developing, producing and monetizing oil and gas properties at economic costs; securing markets for production or monetization of assets; fluctuating commodity prices and exchange rates; and, changes to government and other regulations. Many of these business risks can be assessed, managed and mitigated through the adherence to well defined strategies included in the Company's business plan.



ROSETTA EXPLORATION INC.
LOOKING WAY UP